

24 February 2011

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117 Jermyn Street,
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Electricity Market Reform Project
Department of Energy & Climate Change
4th Floor Area E
3 Whitehall Place
London
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Dear Sir

Department of Energy & Climate Change ECC Consultation on the UK Electricity Market Reform

Petrofac welcomes the opportunity to respond to the DECC consultation document on Electricity Market Reform.

Background

Petrofac is a leading international provider of facilities solutions to the oil, gas and energy industries with a proven track record in the design, construction and operation of energy infrastructure. Petrofac is quoted in the London Stock Exchange and is a constituent of the FTSE 100 index. With more than 13,000 employees, Petrofac operates worldwide to deliver services across the full lifecycle of energy assets. Where we can leverage our service capability, Petrofac will develop and co-invest in energy and infrastructure projects.

Our interest in the UK Electricity Market Reform is not only built upon our activities supporting the UKCS Oil and Gas sectors, but also our developing interests in the UK Carbon Capture and Storage and Offshore Wind sectors where we are active as both a service provider and co-investor:-

In CCS, our current portfolio of CO₂ storage co-investment projects, which have been announced, include;

- CO₂ storage for ScottishPower Longannet: A storage joint venture between Petrofac subsidiary CO₂DeepStore and Shell to develop a storage site in the Outer Moray Firth area of the North Sea to provide storage for CO₂ from the ScottishPower Longannet project in Central Scotland
- CO₂ storage for Scottish and Southern Energy Peterhead: A storage joint venture between CO₂DeepStore and Shell to offer storage facilities in the Outer Moray Firth area of the North Sea for CO₂ from SSE's gas fired power station at Peterhead
- CO₂ storage for Ayrshire Power planned project at Hunterston: A storage joint venture between CO₂DeepStore and Peel Energy CCS to develop a storage site in the East Irish Sea to provide storage for CO₂ emissions in North West England and South West Scotland, including the Hunterston project

In Offshore Wind, our aspirations are similarly ambitious and we are currently:-

- Supporting Round 2 and Round 3 developers in the design of offshore array and transmission infrastructure; and the development of project execution strategies
- Exploring the potential to partner with leading equipment manufacturers (OEM's) to deliver the full OFTO scope of services supported through co-investment during the construction phase of development.
- Developing a comprehensive O&M offering to the offshore wind market covering both warranty and post warranty services
- Developing the shape and structure of a National Training Centre for Offshore Wind.

We have read and considered carefully the four proposal areas included in the consultation document. Petrofac is supportive of all reasonable measures to support the progressive decarbonisation of the electricity market and industry in general. Any such measures should in our view preserve and encourage diversity and security of supply whilst not disproportionately disadvantaging UK industry or offshore energy sector. To this end we have limited our feedback to the proposals on "Feed In Tariffs" and the "Emissions Performance Standard".

Feed In Tariffs

Petrofac generally welcomes the proposals regarding the introduction of a "Feed In Tariffs" (FIT) for delivery of decarbonised electricity to the grid. Any mechanism that establishes a reward for the delivery of low carbon electricity should encourage its development. In particular we feel that such a policy would contribute to removing uncertainty faced by investors and would also improve the availability of financing into the large-scale, low-carbon generation sector. This will be a fundamental factor in initiating low carbon developments.

We broadly agree with the Government assessment of the merits and drawbacks of each model of FIT.

Emissions Performance Standard

Petrofac supports the notion of an Emissions Performance Standard for all new power generation plant. In order to encourage progressive decarbonisation, targets for phased reduction in the EPS should be reviewed and published regularly to continually drive down emissions without compromising UK business competitiveness. We would encourage the Government to find a way of introducing the EPS such that it does not simply drive a fuel switch to gas for all new plant which may compromise diversity and security of supply for the UK. We note the guidance of the UK Committee on Climate Change which states that in order to achieve UK emissions targets, CCS will need to be fitted to a significant part of the UK gas CCGT fleet in due course. We would therefore encourage Government to continue to consider and publish a plan for how an appropriate EPS for new gas fired systems might be introduced.

We feel that care must be taken to protect the plant life of the early CCS projects such that their full demonstration value is preserved.

A key aspect of investor confidence in new power plant will be how future changes in emissions regulations will apply over time. We would encourage EPS and FIT to be set for a fixed contract term for all new power station investments to reduce uncertainty and improve investor confidence. We also support the proposal that major refurbishment and life extension investments on existing plant should be subject to a review of any abatement incentives and performance standards.

Summary

Petrofac has a keen interest in the Electricity Market Reform as it interacts with both our oil and gas and "new energy" business interests. We welcome the opportunity to respond to the consultation and are supportive of all reasonable measures to support the progressive decarbonisation of the electricity market and industry in general. We would advocate measures that encourage diversity and security of supply whilst not disproportionately disadvantaging UK industry or offshore energy sector.

We support the notion of a Feed In Tariff and an Emissions Performance Standard, but would encourage the government to clarify a roadmap for partially decarbonising gas fired power systems and also ensure the UK maintains a diversity of energy supplies.

Finally, Petrofac would encourage Government to strive to limit the regulatory and administrative complexity of the outcome of the Electricity Market Reform whilst achieving the primary objectives.

Yours sincerely

For and on behalf of Petrofac Services Limited

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