



9th March 2011

Electricity Market Reform Project
Department of Energy & Climate Change
4th Floor Area E
3 Whitehall Place
London
SW1A 2AW

**Electricity Market Reform
Consultation Response - Costain**

Dear Sir

Please find attached the response and observations by Costain with respect to Electricity Market Reform Consultation issued in December 2010.

Costain are committed to the development and delivery of new and replacement assets for clients in the UK in line with our strategy and focus on National Needs. The EMR is critical to increasing confidence in investment decisions and providing the stimulus to further advancing decarbonisation of the generation sector.

We look forward to the collation and recommendations being progressed.

Yours faithfully

[Redacted Signature]

[Redacted Signature]

Power Sector

Copy sent to EMR-condoc@decc.qsi.gov

Attached – Consultation response (4pages)

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Consultation Response

Electricity Market Reform

Open Date: 16 December 2010
Close Date: 10 March 2011

Submitted by: [REDACTED]

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Power Sector Director, Costain



Introduction

Costain are committed to working with our clients to develop and deliver projects that serve National Needs. In the Power sector, Costain work across the segments on leading projects, from Underground Gas Storage to Energy from Waste. In the Nuclear and Renewable Sectors we are working with our partners to offer the full range of services as we rebuild and extend the UK infrastructure. We are active with National Grid delivering new Transmission assets.

Costain support the Government's objectives on decarbonisation, security of supply and affordability and have reviewed the consultation document on Electricity Market Reform. We offer the following observations and responses.



Costain response on EMR Consultation

Current Market Arrangements

Costain, as the leading UK engineering and delivery Company, believes that current market mechanisms are not enabling the necessary capital investment in the UK energy infrastructure.

The necessity to sustain progress towards emission reduction targets for 2020 and 2050 indicate that intervention is appropriate but should be in a measured manner to balance the attractiveness of UK for new investment whilst ensuring affordability for all and competitiveness for intensive users.

Costain concur with the assessment of future risks to the UK's energy supply. There is urgent need for increased confidence to promote new low carbon investment. Indeed Costain have recently deployed their skills to advance the development and delivery of new assets, for Utility clients, in underground gas storage schemes within the UK. This enables Natural Gas to be stored and released more quickly than traditional seasonal storage.

Costain believes it is important to encourage all forms of generation for the future to maintain a diverse supply base. Nuclear and Renewable generation must achieve the predicted growth rate as part of the drive to displace old fossil generation plant. New clean fossil plant has an equally important role in transition as older plant closes through modern, higher efficiency combined cycle plant and new clean coal plant (ASC or IGCC with CCS).

In specific response to the electricity storage challenge then new clean coal plant can re-act quickly if holding UK coal stock is not penalised. The opportunity to develop IGCC with CCS, with intermediate Hydrogen Storage has significant merits and should not be excluded from considerations in a low carbon future.

Feed In Tarrifs

The concept of introducing a Feed-in-Tariff (FIT) is supported. The choice between a Premium FIT and CfD FIT mechanisms have been reviewed and the relative advantages compared. Costain do not have an absolute preference, and our traditional clients generally prefer CfD FIT.

The consideration of a Contract for Differences above a Feed-in-Tariff (FIT) appeals to Investors. The period of the Contract, and the right of change, must be appropriately governed.



Emission Performance Standards (EPS)

Costain understand the need to ensure that we move to a low carbon economy position, where emissions are significantly reduced.

The Emission Performance Standard (EPS) is a potential instrument for establishing progressively lower emission levels but should not be a UK only position. If required, establishing an EU-wide EPS for all new plant would be preferable. An EU EPS could be extended to other emissions, and provide basis for an EU wide PPC standard – an admirable position.

There is no indication that the introduction of an Emission Performance Standard (EPS) on its own would encourage investments or new entrants. The necessity to have other support mechanisms or incentives - which may be subject to change, together with a legally binding EPS could decrease UK attractiveness as the place to invest.

An EPS could restrict the pace of new investment and may polarise towards lowest carbon technology and potentially increase supply risk. Hence the introduction of EPS is not deemed necessary.

The challenge of designing an effective UK based EPS, with provisions for derogations, grandfathering and life extensions appears overly complex. Costain believe that if market reform delivers the appropriate economic motivation to reduce carbon then there is no additional need for EPS.

Capacity Payments

Costain consider that the combination of a Capacity payment in addition to modifications to current market mechanisms may not be appropriate in delivering the affordability element of the future energy challenge. There would appear to be further work and modelling required before capacity payment regime can be confirmed.

The introduction of FIT mechanisms combined with the conventional approach to a balanced portfolio by major suppliers should allow investment across the full range of technology. Where there is a market failure to respond, the potential for a central contract for new assets should be considered. This may result in the creation of strategic generation asset, funded and operated under contract.

Period for Introduction

In reviewing the cessation of the RO from 2017, Costain believe that the latter option of having a choice of schemes in any overlap period is essential. This should ensure that new policy is of similar value and reduces the potential of stand-off or delay between Investors and Policymakers if there is substantial difference in schemes.

End.

