



**Department of
Trade and Industry**
Engineering Industries

**PIU ENERGY REVIEW: IMPACT OF ENERGY POLICY ON UK POWER GENERATION
EQUIPMENT INDUSTRY**

I understand that whilst the DTI's initial contribution was aimed at giving a wide overview of energy policy and issues, there are other areas, especially related to factors which determine industrial competitiveness which I trust the PIU are considering as part of the review.

I am responsible, inter alia, for the sponsorship of the UK power generation equipment manufacturing sector and the Directorate holds, as its key aim, the maintenance and development of the competitiveness of the industrial sectors within its area.

By the very nature of their business activities, the performance of the power generation equipment sector is affected by the decisions of UK energy producers which, in turn, are directly influenced by the UK Government's energy policy. In the recent past decisions by the UK Government have had a direct impact on the UK equipment industry. For example, during the early 1990's the UK market saw a burst of activity with the establishment of new gas-fired power stations. However this was halted as a result of the Government's Stricter Consents Policy on new gas-fired power station build from October 1998 until November 2000. This decision had an adverse impact on the demand for new gas-fired power stations as illustrated by the comment paper (page 3) submitted recently by Alstom UK to the PIU Energy Review. As a result of such experience, recent discussions with the industry have stressed the need for longer-term stability and consistency in the UK's Energy Policy. Such an approach would be particularly beneficial to the industry where production plans demand long lead times.

The recent paper by Alstom UK to the PIU also highlights other areas where energy policy impact upon the power equipment sector. These areas, on which Alstom UK expand their arguments further in their paper, include:

- Difficulties for CHP plants arising from the New Electricity Trading Arrangements (NETA), the Climate Change Levy and gas and electricity pricing have meant that few new CHP plants are being ordered in the UK compared with continental Europe. This lack of CHP take-up could affect the UK energy industry's contribution towards the Government's target of 10GW of installed CHP capacity by 2010.
- Major and continuing planning delays on energy from waste projects could affect the Government's target of 10% of the UK's electricity needs from renewable sources by 2010. Alstom indicate that such delays were material in their recent decision to close their relevant UK facility (page 10 of their paper).

The UK power equipment sector includes a small number of leading companies such as Alstom, Rolls Royce and Mitsui Babcock as well as a large number of smaller suppliers. These other suppliers are currently being mapped for the Department and total more than 300 individual companies. The sector has capabilities in gas, steam (coal-derived) and oil (reciprocating engines) technologies. According to official UK sources, turnover of the sector was some £1.3 billion (1999). Overseas markets are important for the sector with, on average, around half company turnover accounted for by exports and in some cases this proportion is much greater. During the 1990's the sector has contracted in terms of the number and size of companies. In both domestic and overseas markets, the sector faces fierce competition primarily from the USA (General Electric and Caterpillar), Germany (Siemens) as well as producers the developing countries. Against this background, it is clearly vital for the sector to receive encouragement and support from Government to maintain and develop its competitive position in the market place.