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Gas Generation Strategy: Consultation Response

The British Ceramic Confederation (BCC) is the trade association for the UK Ceramic Manufacturing Industry, representing the common and collective interests of all sectors of the Industry. Its 100 member companies cover the full spectrum of materials, plant and machinery and comprise over 90% of the Industry's manufacturing capacity.

Membership of the Confederation includes manufacturers from the following industry sectors:

- | | | |
|----------------------|------------------------|----------------------|
| ▪ Gift and Tableware | ▪ Floor and Wall Tiles | ▪ Sanitaryware |
| ▪ Bricks | ▪ Clay Roof Tiles | ▪ Clay Pipes |
| ▪ Refractories | ▪ Industrial Ceramics | ▪ Material Suppliers |
| ▪ Abrasives | | |

The industry is energy-intensive (but not energy-inefficient). Energy bills / taxes can be up to 30-35% of total production costs.

Background

- Because of the high firing temperatures used, gas represents approximately 85% of the fuel used in our sector.
- Most of the processes are high temperature and, to ensure energy-efficiency, processes are often continuous. Production in these factories cannot be switched off easily for safety reasons and shut-downs are usually scheduled months in advance.
- It is therefore essential that ceramic manufacturers have access to secure and internationally competitive energy contracts – both gas and electricity.
- The gas wholesale price in the UK is much more variable than those in some other competitor economies in Western Europe.¹
- In times of gas shortage, the UK Government and Ofgem have favoured a “demand side response” i.e. manufacturers should stop manufacturing when shortages occur and prices soar.
- Gas fired power stations will be seen as essential to provide back-up when intermittent renewables are not available in future (e.g. wind power).
- Many ceramic manufacturers are taking a gamble on when they “fix” their gas price with their supplier. If a manufacturer fixes at the wrong point then this may wipe out their annual profits. Some of our members may not have access to fixed rate contracts at all.
- All this leads to uncertain returns from UK manufacturing compared with that in other countries which does not help investment or international competitiveness.

¹ See Chart 4 in <http://www.decc.gov.uk/assets/decc/11/about-us/economics-social-research/3593-estimated-impacts-of-our-policies-on-energy-prices.pdf> and winter wholesale gas comparison chart in http://www.ofgem.gov.uk/Media/FactSheets/Documents/1/Why%20are%20energy%20prices%20rising_factsheet_108.pdf for indication of variability

- We have responded to DECC's heat strategy consultation. In that response we outlined why in the short, medium and longer term the demand for gas in industrial heat will remain higher than DECC might be modelling. This is going to lead to further demands on gas in the UK. We append a copy of our response.
- A number of our members participated in a ComRes cross-industry survey in 2011². This recommended that the UK Government must set a timetable for new gas storage capacity to ensure UK energy security during gas supply shocks and volatility associated with intermittent wind power generation. The majority of the companies surveyed also said that the UK Government should establish an enhanced storage Public Service Obligation, which requires utilities to hold in store a set proportion of their gas sales and is common throughout mainland Europe.
- DECC has asked Ofgem to recommend options to improve medium term security. We have highlighted that Strategic Gas Storage or Gas Storage plus a Storage Obligation as the only options that Ofgem are considering that will reduce the volatility and improve security - market-based options will not achieve this result. Our members recognise that this may result in higher costs and it is important that DECC and Ofgem quantify these as part of this process.

Consultation Response

In response to the questions in this consultation:

1. What are the main strengths and weaknesses of gas generation in helping deliver a secure, affordable, and high capacity generation through our future energy system?

Strengths:

- Key back-up fuel for intermittent renewables – fast response time.
- Some indigenous supply with options for inclusion of indigenous unconventional gas (shale and coal bed methane).
- Lower carbon footprint than coal.
- Lower cost than many other options.
- Fast to implement (compared with nuclear)

Weaknesses:

- Increasing reliance on imported gas supplies.
- High demand remains for gas use in heating (industrial and domestic). Both this and the previous point lead to high gas price volatility (unless extra storage coupled with a Public Service Obligation is delivered).

2. What are the key risks to gas generation over the next 20 years and what level of gas generation capacity is required?

- See above.

3. What are the key risks to gas generation over the next 20 years and what level of gas generation capacity is required?

- Availability of unconventional sources.
- Need for access to gas storage.

4. What are the key risks to gas generation over the next 20 years and what level of gas generation capacity is required?

² <http://www.comres.co.uk/poll/528/ee/the-energy-intensive-users-groupchemical-industries-association-gas-security-survey.htm>

- Back-up volume needed for intermittent renewables.

- Shale gas – we welcome development of this as it has potential to improve security and reduce costs.

- High temperature, heat-using industries such as ceramics are vulnerable to supply shocks especially if gas is diverted to electricity generation.
- We believe that more lower volume/higher delivery rate medium-range storage is essential.
- Wind, being intermittent, cannot materially reduce the *peak* demand for gas generation.
- We think it unlikely that the market will deliver on the amount of storage required.
- BCC remains unclear about the need for an immediate capacity mechanism. However, 1:1 back-up for intermittent renewable generation will be required unless demand shedding is used which will have a major effect on industries such as ceramics.

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