19th February 2014

The Rt. Hon Edward Davey
Department of Energy and Climate Change
3 Whitehall Place
London
SW1A 2AW

Dear Secretary of State,

The British Ceramic Confederation is writing to you to ask that HM Government give the Preesall gas storage project its strongest support. The UK ceramic manufacturing sector, including its material suppliers, employs about 20,000 people, generates almost £2bn sales (with a substantial proportion of exports) and provides significant tax revenue for the UK. Though energy-efficient the sector is energy-intensive with energy costs and climate-related charges comprising up to 35% of total production costs in the UK. In the short and medium term, gas will remain a strategic fuel for the ceramic industry, which at present represents 85% of the sector’s energy requirements for high-temperature processing. To maintain and build on success, the industry needs secure, predictable and internationally competitively priced energy, including gas.

We understand that Halite Energy Group; the developers for the Preesall project are currently seeking permission from DECC to construct and operate this facility. The Preesall facility would be the largest onshore gas storage facility in the UK adding 20 percent to our gas storage capacity (3 days).

Gas-intensive industries such as ceramics are heavily affected by the gas price. UK gas wholesale prices are among some of the most volatile in Europe. Price volatility, extended gas price spikes and the associated inability to have a predictable business model have a severe and deleterious impact on our sector, investment and the wider economy. Highly volatile prices (such as experienced in the UK during winter 2012/13, where prices spiked from 60 to 65p / therm to well over £1 / therm and once to £1.50 / therm) caused immediate threats to business survival. Volatility to this extent would be unacceptable in most other commodities.

The Preesall project will result in fewer price shocks for our members during winter demand peaks because it is fast cycle; meaning it can meet peaks in gas demand very quickly and flexibly, thereby reducing gas price volatility.
UK gas storage (as a number of days’ usage) is amongst the lowest in Europe. It is concerning to our members that the UK has such low levels of gas storage. The UK has 14 days of storage to meet UK needs compared to 87 days in France and 69 days in Germany. In addition, we have become a net importer of gas – by 2025 we will be forced to import 75 percent of all our gas needs.

Some continuous high temperature processes such as those in the brick and roof tile industry are not able to stop production quickly at times of energy shortages (gas or electricity) as this can cause extensive damage to the kiln structure, refractories and kiln cars, which could take months to repair. Shut-downs in these types of plants are planned months in advance. In the current financial climate, such extensive damage to production facilities could, for many businesses, cause permanent closure.

The Government has identified a need for more gas storage in its National Energy Policy Statement. The House of Commons Energy & Climate Change Committee has also called for the doubling of the UK’s gas storage by 2020 to ensure we maintain a resilient gas supply. It is universally recognised that the Government should develop a strategy for increasing gas storage, doing nothing could result in not only no storage being built but a diminished security of gas supply and increased price volatility. We strongly believe that additional gas storage is essential to ensure gas security and reduce price volatility for all gas users.

Storing gas in salt caverns such as those proposed in Preesall is a safe and proven industry across the world. We understand the Preesall development has attracted significant financial investment interest and that is it economic to build, which is unusual for gas storage projects in the current UK gas market. Furthermore, it will inject £600m of private sector investment into the UK economy in a depressed area in the North West.

In conclusion, energy security and internationally competitive energy prices are major challenges facing the UK. The British Ceramic Confederation urges the Government and DECC to very carefully consider the Preesall project. Its flexible fast-cycling capability is best suited to our member and UK needs.

Yours sincerely,

Dr Andrew McDermott
Technical Director

Copies:
DECC: Giles Scott, Anne Stuart; Will Cutler
BIS: Chris Pook; Denis Walker; Nigel Goulty
Ofgem: Dermot Nolan
BCC: Board, Laura Cohen, Energy and Emissions Chairmen