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**Sent:** 24 April 2014 14:48

**To:** Fallon MPST

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**Subject:** Need for Additional UK Gas Storage and Proposed Preesall Underground Gas Storage Facility and Implications of Budget / EEAG on Ceramic Sector



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24<sup>th</sup> April 2014

Rt Hon Michael Fallon MP  
Minister of State for Business and Energy  
Department for Business, Innovation and Skills  
1 Victoria Street  
London  
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Dear Minister

**Need for Additional UK Gas Storage and Proposed Preesall Underground Gas Storage Facility and Implications of Budget / EEAG on Ceramic Sector**

I am writing to offer strong support for additional UK gas storage projects, including the proposed underground gas storage facility being developed by Halite Energy Group at Preesall in Lancashire.

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.

As the Chancellor of the Exchequer made clear in his Budget statement in March 2014, the cost of energy acutely impacts the international competitiveness of the UK manufacturing sector and particularly for energy intensive industries such as the ceramics. In parallel, positive action from Ministerial colleagues is required to drive up levels of gas storage in the UK, for example the strategically important Preesall project.

Gas-intensive industries such as ceramics are heavily affected by gas prices. Unlike many other gas-intensive industries, the ceramic sector is composed of a significant number of SMEs who cannot access the full range of energy contracts, e.g. the ability to fix prices or hedge forwards. UK gas wholesale prices are among 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 UK 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 and at least one of our members was forced to close temporarily and lay off staff. Such volatility would be unacceptable in most commodities. The best insurance to guard against gas price volatility is to build and use additional UK gas storage.

Moreover, there is imminent removal of much UK coal-fired electricity generation capacity; most of which will need to be replaced in the short-term by gas-fired stations. Longer-term, more intermittent renewable generation will connect to the grid. The intermittent nature of such generation will require additional gas-fired generation capacity as backup for those periods when the wind doesn't blow or the sun doesn't shine. This will introduce additional pressure on gas supplies and increase price volatility at times of constraint.

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.

We understand that the proposed underground gas storage facility being developed by Halite Energy Group at Preesall in Lancashire, is currently being re-determined by the Department of Energy and Climate Change, with a decision expected in the coming months. When completed, the Preesall project would be the largest onshore gas storage facility in the UK adding 20 percent to our gas storage capacity (3 days). It would result in fewer price shocks for our members during winter and other demand peaks because it is fast cycle; meaning it can meet peaks in gas demand very quickly and flexibly, thereby reducing gas price volatility that can prove so damaging to gas intensive consumers.

To this end, I would urge that representations are made by the Department for Business, Innovation and Skills to the Department of Energy and Climate Change to ensure that Ministers and officials determining the Preesall application are made aware of the importance of gas storage to maintaining the competitiveness of the UK manufacturing sector generally, and how the credibility of government policy towards the energy intensive manufacturing sector is linked to delivering more gas storage capacity in the UK.

I would welcome the opportunity to meet with you in the coming weeks to discuss gas storage including Preesall and other gas, electricity and carbon issues which are important to our membership.

While we welcome the principle behind the Chancellor's announcements in budget to alleviate the costs of energy for Energy Intensive Industries such as ceramics, there is nothing tangible at this stage that will definitely benefit our members. In particular we are deeply concerned by the recently published Environmental and Energy State Aid Guidelines that will prevent our most electro-intensive members in ceramics and kaolin & ball clay production (as well as other mineralogical sectors) receiving compensation against the cost of the UK Carbon Price Support tax. We must be allowed to compete on a level playing field with our European competitors and other UK sectors that will be, under the guidelines, attracting compensation from the Energy Intensive Industries package. We would welcome the opportunity to develop ways forward here.

Yours sincerely



Dr Laura Cohen  
Chief Executive

James Wild, Special Adviser to the Minister of State for Business and Energy  
DECC: Greg Barker MP, Anne Stuart, Eleanor Warburton  
BIS: Chris Pook, Robin Webb, Nigel Goulty  
Ofgem: Dermot Nolan  
BCC: Board, Energy and Emissions Chairmen



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Thank you for your e-mail and letter of 24 April, regarding support for additional UK Gas Storage projects, including Halite Energy Group Limited's application for a proposed underground Gas Storage Facility at Preesall.

As you will be aware, Halite's application is now to be re-determined and the Secretary of State wrote to all the interested parties on 8 April explaining the written process to enable him to do that, together with a Statement of Matters to which further written representations relevant to the re-determination are invited.

In the circumstances, whilst your support for Halite's application and views on the need for additional UK storage are noted, you will appreciate that it would not be appropriate for DECC Ministers to meet to discuss a live planning application. It would also be inappropriate for us to comment on wider energy policy matters that are pertinent to the re-determination of the application in due course.

I can confirm, however, that all representations received are being forwarded to the Planning Inspectorate and will be published at the same time in due course on its Infrastructure Planning Portal at:

<http://infrastructure.planningportal.gov.uk/projects/north-west/preesall-saltfield-underground-gas-storage/?ipcsection=docs&stage=6&filter=Correspondence+received+by+Secretary+of+State>

As specified in the Statement of Matters, there will also be an opportunity for interested parties to comment on the representations received and other relevant information. Both your representation and the other representations received from interested parties along with all other relevant information will be taken into account in the Secretary of State's decision on the application.



**The Rt Hon Michael Fallon MP**