

Consultation on draft National Policy Statements for Energy Infrastructure

Response from the Energy Intensive Users Group

The Energy Intensive Users Group represents manufacturing industries such as steel, chemicals, paper, cement, glass, ceramics, aluminium, industrial gases, etc., that operate in international markets and depend on access to secure, competitive energy supplies to remain in business.

General Comments

EIUG welcomes the opportunity to comment on DECC's draft Energy National Policy Statements. We have some concerns about certain matters of detail, which are outlined below, but trust that these – and other valid points raised in response to this consultation – can be satisfactorily addressed without undue delay to the NPS process.

As recent analysis by Ofgem and DECC has confirmed, consumers face tightening supply margins, rising prices and a material risk of involuntary interruption to industrial supplies over the medium and longer term unless the market is able to renew and expand energy infrastructure in line with projected demand. It is also clear that the market can neither respond in the time available, nor on the scale required, unless a reformed planning regime allows it to do so. It is essential therefore that the NPSs are as robust as possible, enabling investors to bring forward individual proposals to the Infrastructure Planning Commission with confidence.

Draft Overarching Energy NPS (EN-1)

EIUG has an established position that the energy mix should be market driven and that no individual energy technology should be ruled in or out of use on ideological grounds. We accept the desirability of ensuring diversity in the energy mix to prevent over-dependence on fossil fuels, both to ensure the security of future energy supplies and reduce CO₂ emissions associated with energy use, where this is practical and cost effective. It is in the interest of consumers to ensure that barriers to investment are removed with respect to energy infrastructure generally, and secure low-carbon technologies in particular, subject of course to local planning concerns being adequately addressed.

We strongly agree with DECC's view that there is a pressing need for investment in new nuclear power, which is the only realistic option for generating secure, competitive, low carbon industrial base load electricity that is currently available for deployment at any significant scale within the UK. We do not see the need for an arbitrary cap on its deployment – or for any other secure, low carbon energy source, for that matter.

We also agree with the need to retain coal and gas within the generation mix, ideally subject to carbon capture in the longer term, in the event that this can be satisfactorily demonstrated at acceptable cost – not least in order to provide backup for fundamentally insecure renewables such as wind. Given the UK's high dependence on gas for the foreseeable future for heating, industrial use and power generation, it is vital that gas storage capacity can be increased from current relatively low levels as one of the means of mitigating the risks arising from growing import dependency.

EIUG accepts there is a need for more renewables within the UK's energy mix, but strongly rejects DECC's less than credible assertion that around 30% of electricity generation will be from renewable sources by 2020, primarily from unreliable and heavily subsidy-dependent wind, both on grounds of gross impracticality and cost. It is a matter of record that our view on this issue was endorsed by DTI/BERR immediately prior to the UK unexpectedly agreeing to support the EU's 2020 renewable target, and that similarly sceptical opinions remain near-universal amongst informed consumers and analysts, including the government's former Chief Scientific Adviser, various scientific and engineering academies and of course within the energy industry itself. Indeed, it is hardly a secret confined to Whitehall that deep scepticism about the target is shared by a number of current and former Ministers and their officials too, albeit one thus far voiced in private. We therefore suggest that DECC's ambitions for renewables as outlined in the NPSs are simply unrealistic, especially for wind, and should be amended in order that they can be taken seriously.

The fact that renewable growth is certain to be far lower than required to meet the EU target does not of course invalidate the case for improving aspects of the planning regime, so to the limited extent that the relevant statements of need may help reduce barriers to renewable deployment (and hence the cost) they are welcome.

Responses to certain specific consultation questions follow

Questions 2 and 9c: do the NPSs give the information needed?

We believe that including more information in the NPSs would allow better decisions to be made for investment in gas storage and infrastructure – sections 3.9.4 -3.9.8 in EN-1; and 1.7 and 2.6.10 in EN-4.

Chart 5.2 in DECC's Energy Markets Outlook Report is relevant:

www.decc.gov.uk/en/content/cms/what_we_do/uk_supply/markets/outlook/outlook.aspx

The National Grid "business as usual" outer sensitivity range is high and increases over time. We understand the reasons for this include:

- CCGT plants required to provide base load electricity security over the medium term, following the planned decommissioning of current nuclear plants and more limited use of remaining current coal plants after 2015 (partly as a result of the Industrial Emissions Directive)
- Further CCGT capacity required to provide back up electricity supply during the frequent and prolonged periods when the UK's wind capacity (which DECC proposes to be very substantial in future) is generating a small fraction of its maximum rated output (e.g. during periods of high pressure/very low wind speeds right across the British Isles, as experienced during winter 2009-10)
- The need to ensure domestic heating supplies are maintained in cold weather

It is essential that the evolution of this outer sensitivity range is kept under review so that decisions made by the IPC on gas infrastructure / storage enable the high end of this envelope to be managed at any time. This is particularly important in light of recent winter experience. In January 2010, even with industrial gas and electricity demand markedly reduced as a result of recession, and with the additional benefit of significantly larger coal/oil fired generating capacity than will remain available by 2015, the issuing of an unprecedented series of Gas Balancing Alerts indicated that the current infrastructure was barely adequate to meet demand during a relatively brief period of very cold weather. Traditional "interruptible gas contracts" will effectively be withdrawn by 2012 and that there will be fewer options to assist "demand side management". This increases the risk that more industrial users could be disconnected involuntarily unless adequate infrastructure / storage is put in place.

Comments in 2.6.10 in EN-4 and 3.9.4 in EN-1 in particular should be strengthened – and the balance between short, medium and long term storage in 3.9.4 needs to be reviewed on a regular basis too.

Question 4 –Urgency for new infrastructure

As above – especially in view of the comments on recent Gas Balancing Alerts, indicating that urgency could be reinforced.

Question 6 – Generic options / mitigation

In section 2.1.14, recognition is essential of sectoral and EIUG feedback to Ofgem's recent consultation on Project Discovery and DECC's consultation low carbon electricity. In summary:

- Many industrial sectors cannot use price signals to make a “timely” response to “minimise imbalances between supply and demand”. Energy intensive sectors have had to become much more energy-efficient and in many sectors there has been a move to continuous rather than batch processes in recent years. Without careful planning, many continuous processes cannot be shut down safely or without causing serious and costly structural damage to complex manufacturing plants. Some batch processes may require less notice, but generalisations cannot be made and more detail is required as to notice periods. Similar principles issues apply for gas and electricity and should be reflected in section 2.1.15.
- Evidence from EIUG members confirms that deteriorating energy security has contributed to the reduction of the competitiveness of energy-intensive manufacturing in the UK and is deterring further investment in these industries.

There needs to be greater regular reviewing / monitoring of whether DECC's policies are indeed delivering adequate energy security. The overarching NPS needs to provide alerts and options if infrastructure cannot be delivered to mitigate security risks.

Question 7 – further comments

It is important that there is a diverse electricity generation mix in the UK. Moves to diversify the UK energy mix, particularly with nuclear and coal/CCS together with some renewables, are essential. Box 3.1, case study on value of a diverse (electricity) generation mix in Winter 2005/06 only tells part of the story as there were implications too for industrial gas users in this period: production was disrupted over a considerable period of time which had a profound effect on competitiveness and the confidence to invest in energy-intensive sectors within the UK. It is therefore essential, in our view, that gas security is improved further.

Question 11c – further comments

Given the criticality of gas in energy security, EIUG believes DECC should consider whether, as a condition of their licence, gas suppliers should be required to secure a pre-determined quantity of gas in storage to ensure continuity of supply to all their customers. This quantity would need to be revised over time (see answers to Q 2/9)