

Background

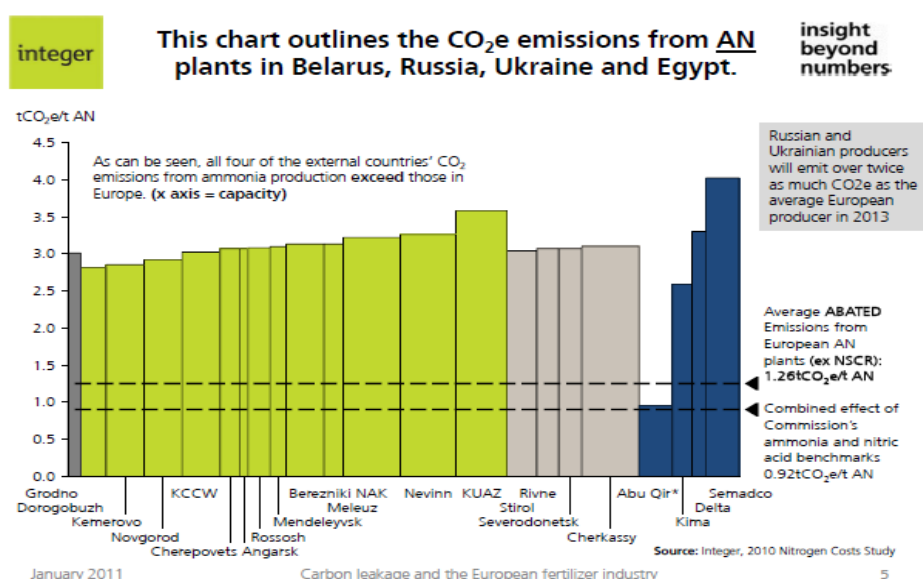
GrowHow is the last remaining fertiliser manufacturer in the UK. The business was formed in 2007 as a joint venture partnership to create a sustainable basis upon which to continue to manufacture fertiliser in the UK. GrowHow is the single largest industrial gas user in the UK. Gas represents nearly 70% of our variable manufacturing cost; it is both our fuel and feedstock. Electricity is our second largest cost.

The cumulative impact of increases to existing taxes and the new taxes, incentives and levies being proposed remains of grave concern. This has the potential to fatally damage our ability to compete with our competitors who are all located outside the UK. Our major competitors (those with the capacity likely import product into the UK) are predominantly Russia, Ukraine and Egypt.

The ammonia plant is the most energy intensive part of our continuous process operation, and the plant upon which all our production activity is centred. Our sites run 24 hours a day, 365 days a year. The ammonia plants are only shut down biennially for maintenance. Our business model (and that of all fertiliser manufacturers across the globe) is predicated on maximising production throughout the year. Our electricity use is substantial and baseload in its nature, as is the case with many other energy intensive industries. What limited demand side response is possible and economic for us (3 MW) as a continuous manufacturer, is expedited under STOR.

A healthy and competitive industrial manufacturing sector has a critical role to play in a rebalanced UK economy. The figures from last quarter of 2010 demonstrate that manufacturing can help lead the UK into a sustained economic recovery. To be able to do this, however, it is vital that the UK remains a good place for intensive manufacturers like GrowHow to do business. Manufacturers like GrowHow play a pivotal role in the transition of UK to a low carbon economy. Building insulation, the carbon fibre used in wind turbine blades and the NO_x abatement solutions required by Industrial Emission Directive are all made using products manufactured by GrowHow.

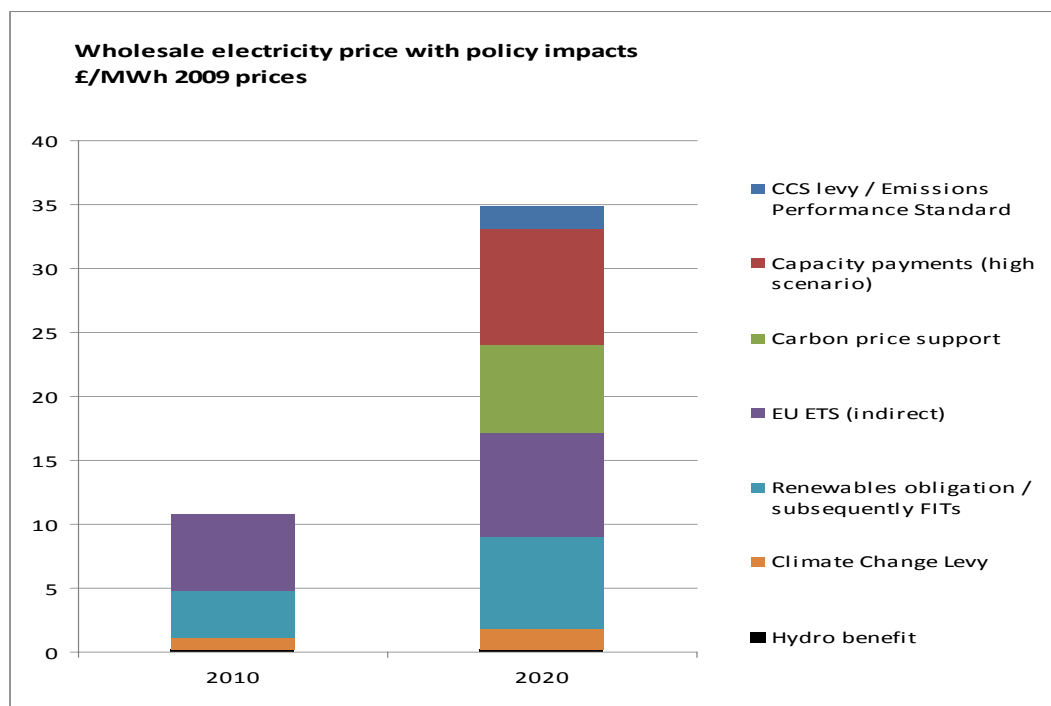
Recognising these opportunities, we have responded to the UK's aspiration to take leadership role with regard to this transition and have sought to drive down the emissions associated with our production. Over the next 2 years, GrowHow is investing £35 million to improve the energy efficiency of its operations and drive its greenhouse gas emissions down by more than a third. The emissions associated with our production, compared to those of our key competitors are significantly lower. We estimate our emissions will be reduced 1.04 tonnes CO₂e per tonne AN from April this year.



Cost of the Proposals

The chart below shows that the EMR proposals could significant increase in the cumulative impact of climate change and energy policies on electricity prices by 2020. Because this is a unilateral increase we are unable to pass this on to the global markets in which we participate.

An independent study by Waters Wye Associates for the Energy Intensive Users Group (EIUG) illustrates that we might still expect to see our energy related costs more than double by 2020.



	Now	2020	Assumptions
Electricity (Av usage over last 3 yrs)	£5,042,827	£15,428,301	MWh 465,678
EU ETS (Baseline figs agreed with DECC)		£3,408,395	EUA 209,104
Total		£18,838,717	

In addition the carbon within our electricity and gas used for production is accounted for, we pay for the carbon associated with electricity in our production within our EU ETS benchmark.

Cumulatively, even assuming a medium carbon price, the total impact of these will total almost £19 million by 2020. GrowHow's business is a cyclical one. Over the last 10 years, our profits have averaged £13.5 million. It can be seen, therefore, that these measures have the potential to be crippling.

If the UK government doesn't act to rebalance this taxation burden for energy intensive industry, our business is one of a number that simply won't survive. For the UK as a whole, the potential outcome is poor both economically and environmentally.

Our key comments on the EMR measures

We fully recognise the need for new nuclear as part of a diverse energy mix including clean coal, gas and renewables. We recognise that the current market arrangements may not provide adequate incentive to support investment in new nuclear. Our concern is that the level of change been proposed is too great, some of which we believe is unnecessary and the costs of which will make our industries uneconomic.

Carbon Price Support

Europe already has the highest energy costs in the world. Proposals for unilateral CPS would give the UK carbon price certainty highly damaging to intensive industries ability to compete internationally.

This is further exacerbated by its combination with the Government's "Contract for Difference" (CfD) proposals which are also aimed at incentivising low carbon generation. **Either CPS or** (CfD) could drive low carbon investment. CPS will add considerably to the cumulative cost of energy and climate change policies born by industry.

Whilst it will give certainty of price upon which generators can calculate the value of projects that to avoid carbon costs, it is a simple energy tax rather than a mechanism to recycle income back to foster further low carbon investment.

Feed-in tariffs

The details of how a FIT with with CfD would work remain unclear at this stage. With this caveat, it would appear to be the most cost-effective way to incentivise low carbon investment. If it is implemented effectively, there is no need for a less focussed and therefore more expensive measure like CPS.

We are concerned that, depending on how they are financed, FITs alone have the potential to have a significant impact on energy intensive industry. When it further develops its FIT proposals, the Government should publish a full impact assessment as to the effect on the competitiveness of energy intensive consumers and that the cost of these should be rebalance the burden to reduce the costs being borne by industry to enable them to continue to compete, as is the case in German.

Capacity payments

Whilst we welcome a commitment to ensure that future security of supply remains consistent with the high level provided by the current electricity market and a diverse generation mix as key to ensuring those goals. We do however question whether there is the need for such radical reforms at this time, given both the available time to consider the reforms and the current obligations that are already on the market.

We would ask Government to take the time to examine this area in more detail, ascertaining whether a review of the cash out, obligations to contract further ahead and the enhancement of obligations (such as National Grids Short Term Operating Reserve - STOR) would not give the market the same security benefits without a fundamental change to the market.

We ask that capacity mechanisms are withdrawn from the EMR and investigated under a more detailed review of this measure separately as we feel there is adequate time in the UK to allow this.

Emissions Performance Standards

We question whether an Emissions Performance Standard (EPS) is required over and above the current schemes that regulate emissions under measures such as EU ETS and the Large Combustion Plant Directive and whether this is simply unnecessary gold plating of EU regulation.

We support a diverse energy mix which includes new nuclear, clean coal, gas and renewables. Market participants, who are best placed to invest in the market, should have the ability to decarbonise in the way they choose. Forcing the use of a technology that is commercially and technically unproven at this time seems inappropriate, as does having a definition on capacity rather than production. Our clear preference is to let current legislation / market forces work.