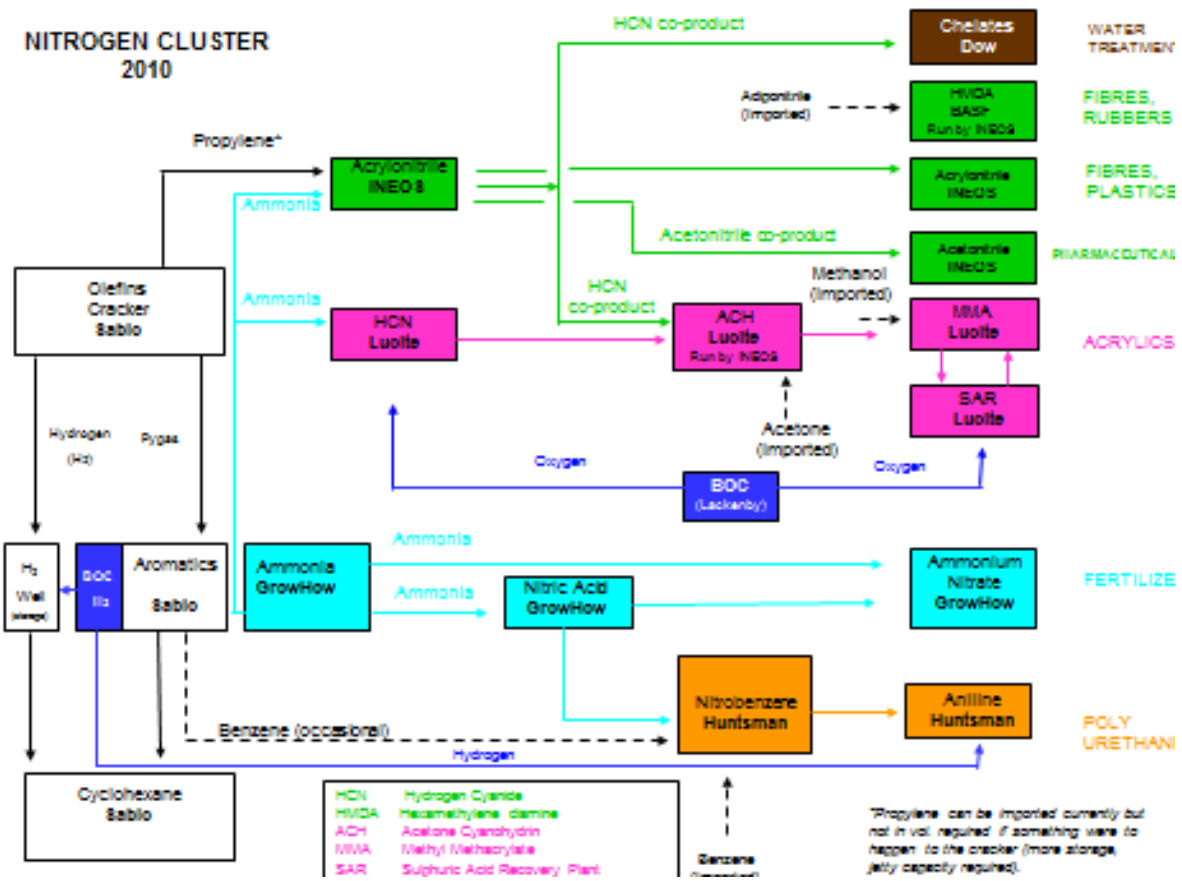
GrowHow UK Limited

Response to a call for evidence on the role of gas in the electricity market

We welcome the Government's focus in providing a strategy for gas generation and welcome the opportunity to respond to the consultation. However, we believe the strategy should also consider the broader context of gas usage given that gas will continue to form an essential part of the energy mix for a range of uses both during and after a transition to a low carbon economy. Gas is essential both as fuel, but more importantly to us as a fertiliser manufacturer as our feedstock.

GrowHow competes within a global market place and is the only remaining primary fertiliser manufacturer in the UK. It is the single largest industrial gas user in the UK; gas is not only our fuel but feedstock for our process too. Gas represents nearly 70% of our variable manufacturing cost. There are no other economic alternatives either now, nor in the foreseeable future. 48% of the world's population is dependant on chemical fertiliser for food.

GrowHow sits at the heart of the Teesside chemical industry as a consequence of the ICI legacy. The cost of our gas has substantial ramifications for our pipeline customers that include Lucite, Huntsman and Ineos Nitriles.

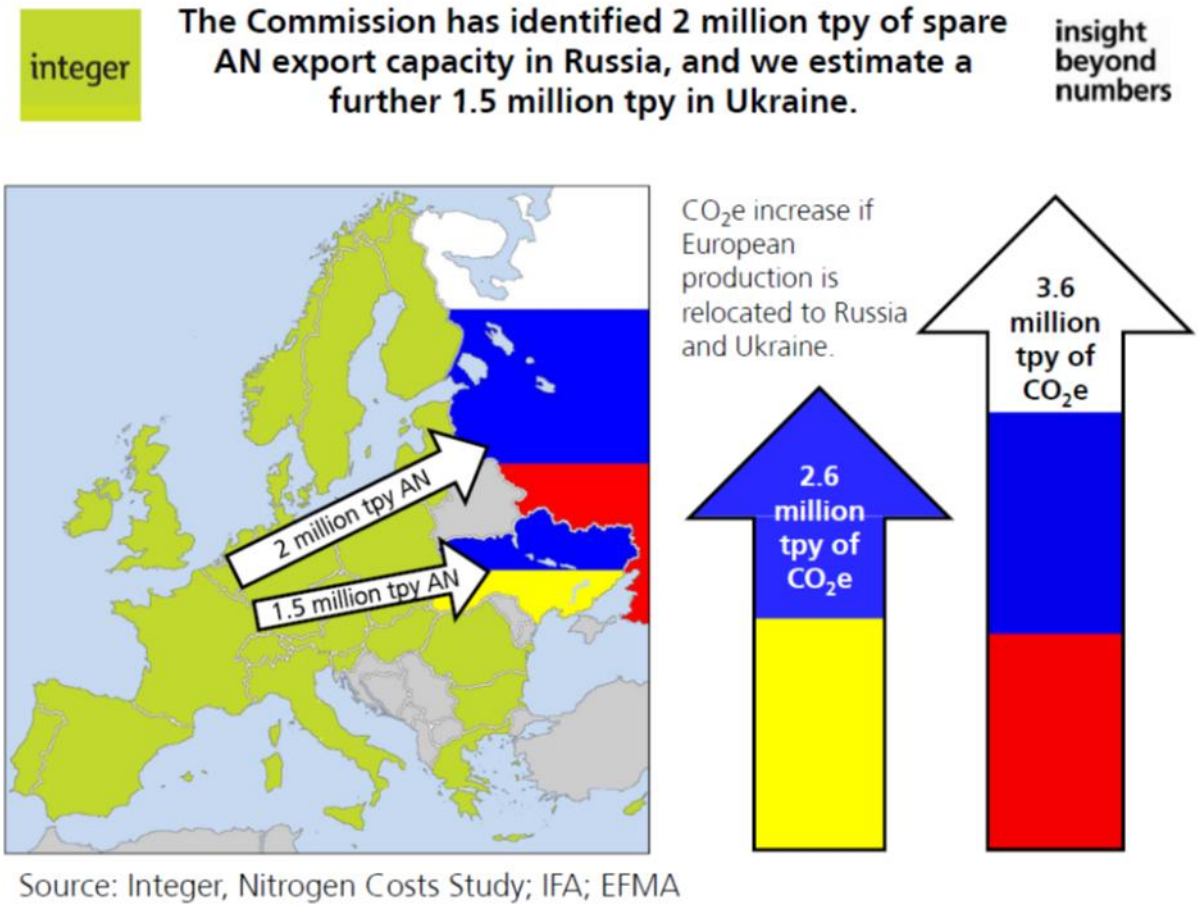


Low Carbon Fertiliser

Our sites require a constant baseload supply of gas due to the continuous nature of our process. Secure and globally competitive gas supplies are therefore a prerequisite not just towards meeting our future electricity needs but also towards promoting the right manufacturing environment in support of the UK's growth agenda. We would consequently argue that gas has an even more critical role to play in terms of food security (where there are no other lower carbon alternatives) than it does for energy security.

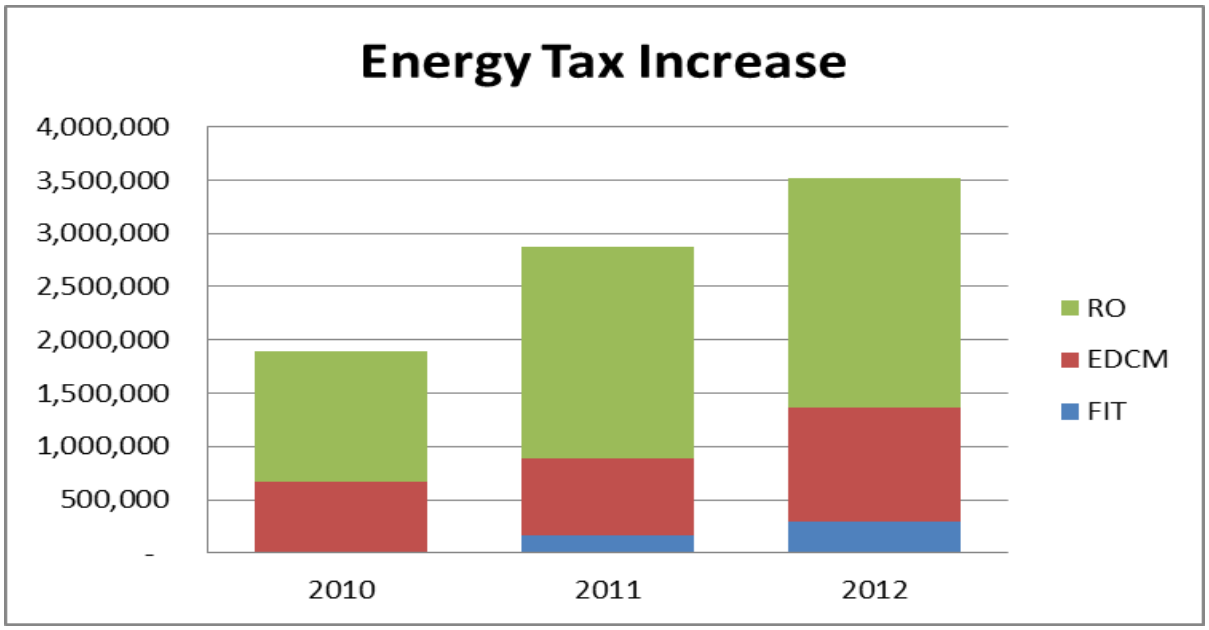
Relative Energy On Costs and Carbon Taxation

Significant investment has been sanctioned by the board to reduce the GHG emissions from our process (over £20m in the lead up to Phase III to reduce emissions by more than 1 million tonnes C02e – reducing the carbon footprint of our AN fertiliser by 40% - recently verified by Carbon Trust) making our AN/ NPK fertiliser products amongst the most efficient in GHG terms within the EU. Outside the EU, with the exception of Egypt there no abatement of N20 emissions from AN manufacturers in Russia and Ukraine (key AN exporters to the UK) and thus emissions are three times greater.



The key point to be made, however, is that in the US, fertiliser can be manufactured on $1-2 per mmbtu. Attractive, fixed long term gas deals are available to foreign investors in Algeria and Egypt where there is no carbon cost. We are currently manufacturing at $8-9. Additional carbon-related taxes in our electricity and gas cost are perceived to be a barrier, non-withstanding the scale of their impact.

Our electricity costs have increased markedly in the last 12 months. This doesn't take account of the significant increases that we may experience with the imposition of Carbon Price Support.



This will increase by a further £894,000 pa next year with the introduction of Carbon Price Support. This does not include the further £1 million increase as a consequence of EU ETS charges.

It is vital that Government develops a comprehensive strategy for energy intensive industries like chemicals that are ideally placed to deliver both UK economic growth and our green future, but need long term predictability to invest. As part of this we continue to ask for government to draw up a strategy that recognises the specific risks to sectors such as chemicals with longer term policies so it can prosper and contribute to UK growth.

Diversification of Supply

Over the last few years, the GB gas market has attracted good investments in gas importation assets which are helping to ensure that sources of gas are significantly diverse and secure. We hope that the Government's strategy will also investigate and comment on the need to enhance the UK's future gas supplies to ensure they are of an adequate level and the network has a sufficient mix of sources and infrastructure to cope with the greater

fluctuations in gas demand that will inevitably follow. The following key areas should be investigated:

Shale Gas

Shale gas is one such opportunity which, if safely exploited while minimising environmental impacts, could make a valuable contribution to diversifying the mix of gas sources available to the UK to the benefit of competitive and secure supplies and the competitiveness of the UK economy including the chemical sector. We would particularly highlight recent experience in the US where exploitation of shale gas is more advanced and is projected to lead to the creation of hundreds of thousands of new jobs, many of these in the Fertiliser sector. We therefore welcome the UK Governments' considered and pragmatic approach to shale gas development to date and hope that this continues. It is important that the critical role that shale gas has to play beyond electricity generation is recognised and encouraged.

CCS

GrowHow has over 1m tonnes of C02 that has been captured and is CCS ready. As well as being a potential abatement technology which could allow both fossil fuel based power generation to play a longer term role in meeting baseload electricity requirements, CCS is also a potential future emissions reduction technology for large emitting processes like ours within the chemical sector if it can be shown to be economically feasible. We welcome the Governments re-vamped competition to promote developments in CCS technology in the power sector and ask that any investments made are "future proofed" to allow industries such as ours to use infrastructure once technologies during and after the commercial proving stage.

Infrastructure Renewal

In implementing a gas strategy, the practical ramifications of infrastructure renewal and the impact on large industrial users must not be forgotten. Recently we received 10 day notice by National Grid to shut down gas supply to our Ince site for a 5 day period. This was estimated to have a direct financial cost to the business of £4.2 million. If we are to rebalance the economy to encourage manufacturers like GrowHow to remain, invest and expand in the UK, it is important that National Grid are compelled to work with Industry to minimise the impact of necessary works on intensive industrial users.