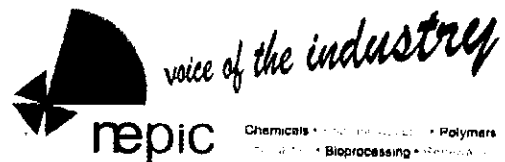


11 March 2011



Electricity Market Reform Project
Department of Energy & Climate Change
4th Floor Area E
3 Whitehall Place
London
SW1A 2AW

Dear Sir

NEPIC response to the EMR Consultation March 2011

On behalf of the members of the Northeast of England Process Industry Cluster. For a list of our 550 members see www.nepic.co.uk

Background

NEPIC, the North East Process Industry Cluster is an active group of over 500 companies and educational establishments involved in this most successful part of UK manufacturing industry, covering chemical, pharmaceutical, biotechnology and biorefining activities. NEPIC is working with the regional Local Enterprise partnerships Tees Valley Unlimited (TVU) to find ways to further improve the growth prospects for their members and hence the economy of the region and the UK.

Such is NEPIC's concern to ensure the process sector contributes to and benefits from the development of a low carbon economy in the UK, it has taken a leading role with the National Innovation Centre CPI in developing a regional low carbon development plan (NEE Business Opportunities from Biomass Dec 2010) and supported its members in forming PICCSI, the Process Industry CCS Initiative, which exists to promote the NEE as a preferred location for one of the UK's first demonstrations of the technology

Our response to this consultation is based on the views of our members especially those with more energy intensive operations and is supported by our partner organisation such as TVU who are submitting their own response with our endorsement.

We have in addition responded on behalf of our members to the treasury consultation on Carbon Price Support and a copy of this response is attached

NEPIC have responded to individual questions as attached, but wish to make some more general comments on the outcomes of the proposal as it currently stands on their members and by extension on the UK economy and the need for growth and rebalancing which are at the heart of what the government is trying to achieve. With Tees Valley Unlimited we have met with DECC & BIS officials to explain the issues which confront the process sector in the region and beyond and will continue to work on this issue on behalf of our members.

Response

NEPIC's response can be summarised as below

- Whilst the Process Manufacturing Sector is energy intensive in many areas it continues to work towards reduced carbon emissions and has a demonstrable track record in this.

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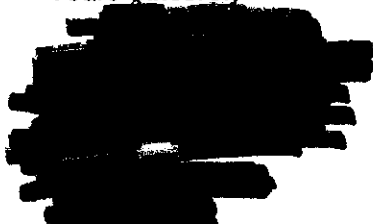
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- Due to its size and positive trade balance, sustaining the energy intensive Process Manufacturing Sector is essential to any rebalancing of the economy towards low carbon manufacturing
- The impact assessment of the EMR proposals must consider the cost impacts of higher energy prices which cannot always be passed on in the face of international competition resulting in carbon leakage and pressure on investment in the UK. Whilst the electricity generating sector is the largest carbon emitter it does not face the competitive pressures felt by export oriented sectors such as process manufacture.
- The reform needs to consider both the issue of costs being passed on multiple times into a sector exposed to carbon leakage, and the potential for the benchmarks used under Phase 3 EU ETS to have unforeseen impacts on integrated (and hence energy efficient) process manufacture
- The reform needs to consider how best to support the substantial costs associated with the development of a CCS infrastructure in the UK including the potential for the industrial sector to be included longer term to meet carbon reduction objectives without leakage.
- The reform seeks to remove the additional support for CHP energy which will not only increase costs for existing industrial users but also discourage further deployment to the detriment of new investment in the UK process sector.
- CCS has the potential to be a market for the globally competitive process engineering organisations and engineering manufacturers/constructors who support the sector particularly in the Tees Valley but also elsewhere in the UK. The reform needs to consider how to secure early profitable deployment of the technology to give this industry a significant opportunity to grow.
- NEPIC is concerned that the development of a CCS roadmap has been delayed and would welcome the opportunity to provide assistance to the development of this so that the UK does not miss the opportunity to build an integrated approach to low carbon between industry and the power generation sector. As mentioned above this would support UK manufacturers and service companies in the supply chain to develop new business opportunities in low carbon energy.

NEPIC hopes the above comments will be considered in the consultation. In addition attached are the response by the PICCSI group on the EMR consultation and NEPIC's earlier response on the Carbon Price Support consultation

Yours Sincerely



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