BRITISH ceramic CONFEDERATION

Federation House, Station Road, Stoke-on-Trent. ST4 2SA
Tel: (01782) 744631 Fax: (01782) 744102
E-mail: bcc@ceramfed.co.uk

10th March 2011
to: elec.marketreforms@decc.gsi.gov.uk; [redacted]

RESPONSE: Electricity Market Reform Consultation
http://www.decc.gov.uk/en/content/cms/consultations/emr/emr.aspx

The British Ceramic Confederation (BCC) is the trade association for the UK Ceramic Manufacturing Industry, representing the common and collective interests of all sectors of the Industry. Its 100 member companies comprise over 90% of the Industry's manufacturing capacity.

Membership of the Confederation includes manufacturers from the following industry sectors:-

- Gift and Tableware
- Bricks
- Refractories
- Floor and Wall Tiles
- Clay Roof Tiles
- Industrial Ceramics
- Sanitaryware
- Clay Pipes
- Material Suppliers

The industry is energy-intensive (but not energy-inefficient): energy bills / taxes can be up to 30-35% of total production costs.

Many thanks for the opportunity to respond to your consultation. The British Ceramic Confederation is a member of and is supporting the Energy Intensive Users Group's response. Our response should be read in conjunction with our response for HMT's consultation on the Carbon Price Floor.

General Points

- We welcome the need to secure electricity supply – after many decades of under-investment - and to move to lower carbon electricity production. We support, in principle, a balanced generation mix of nuclear (including new build), renewables, clean gas, and coal with CCS. However, this objective has to be achieved in a cost-effective manner. We agree that the current market is not delivering the investment required for this aim.
- We support action to increase liquidity and welcome the dialogue between Ofgem and DECC.
- We think a more competitive model than the heavily managed system proposed in this consultation would deliver carbon reduction/energy supply at lowest cost to consumers.
- We are concerned at the absence of an adequate impact assessment for energy intensive users – including an assessment of cumulative burden of all UK climate taxes and costs.
  - The UK ceramics industry and other EI sectors are part of the supply chain for low carbon electricity generation and a low carbon economy. They are delivering growth and a rebalancing of the UK economy.
  - All options under Electricity Market Reform and Carbon Price Floor proposals increase electricity wholesale prices markedly. Most options appear to almost double the wholesale price in real terms by 2030. This disadvantages UK manufacturers compared with overseas competitors not subject to the same regime. UK companies will close if not profitable. The EMR proposals continue to exacerbate the risk of carbon leakage.
  - The complexity of the UK policies and potential cumulative impact continues to deter essential investment in UK energy-intensive manufacturers at this critical time.
  - The contribution of these sectors to the UK economy including UK tax revenues and balance of payments should be quantified in the impact assessment in relation to the risk of carbon leakage if companies go out of business as a consequence.
  - The Energy Intensive Users Group's response appends an updated assessment of the cumulative impact (Waters Wye Associates).
- UK (ceramics) manufacturers need more reward for energy efficiency measures and using renewable energy sources.
- We are concerned that investors in electricity generation will be deterred if they are uncertain that the measures proposed will endure for the 25+ year plant lifetime.

[redacted]

1. Feed In Tariffs/ Contract for Difference

- The Contract for Difference option appears to be the preferable to the Premium FIT / Fixed Tariffs. (For Premium FITs, if the price is set too low they may not work, yet they lead to windfall profits for electricity producers if set too high.) However, to qualify our support:
  - We need clarification of who is the contracting party. We would welcome Government taking on an element of the risk (as with the Renewable Heat Incentive) rather than placing the entire burden on energy users.
  - We would expect (windfall) benefits to be recycled to consumers.
  - CfD/ FITs should not favour particular mature low carbon technologies.
  - The proposed CfD/ FIT aims to achieve the same outcome as the Carbon Price Floor: the CPF appears unnecessary, is expensive for industrial users and should not be required.
  - CFD/FITs should have positive implications for availability of secure long-term industrial supply contracts. For example, there are opportunities for electricity suppliers to return the support by Government and industrial consumers in a similar way to the French Exeltium long term contract option at approx. €40/MWh.
  - We would want to be involved in further developing the proposal for CfD FITs – especially the areas above.

2. Capacity Payments

- The proposals for a capacity mechanism appear unnecessary and expensive (e.g. "capacity for all" option is highlighted as an expensive option in the WWA report). Existing mechanisms such as the Short Term Operating Reserve (STOR), demand side response, options for National Grid to contract further ahead etc may be adequate or could be modified to be so. There is time to develop the proposal further before it is needed (e.g. when intermittent wind power becomes much more widely used.)

3. Emissions Performance Standards

- There appears to be no need for an EPS – the issues are addressed by EU ETS.
- A low level EPS cap would be damaging for security of supply – it would be less of a problem if it were set as an annual measure (similar to opted out to Large Combustion Plant Directive plant). An annual measure might minimise security of supply risks – the aim should be to minimise the time high carbon generation is run, not to remove it from the system.
- The standard may have the effect of increasing the UK's dependency on imported (and higher carbon) electricity via interconnectors – the opposite effect intended by the policy.
- It was encouraging DECC had rejected the Committee on Climate Change's proposal that gas power stations should not be built after 2020 without carbon capture and storage.

Please feel free to contact me if you require any more information. We are keen to continue to engage with DECC to explore options for secure, lower carbon, affordable energy.

[redacted]

[redacted]