

Energy Intensive Users Group

British Ceramic Confederation
Chemical Industries Association
British Cement Association
Major Energy Users Council
UK Steel

British Glass Manufacturers Confederation
Energy Information Centre; John Hall Associates
Confederation of Paper Industries
Alcan; Anglesey Aluminium
BOC; Air Products

Jeremy Nicholson - Director

EIUG lobbies for secure, internationally competitive energy prices for the energy intensive industries in the UK

www.eiug.org.uk

EIUG is affiliated to the International Federation of Industrial Energy Consumers, which represents these industries at a European level

www.ifieceurope.org

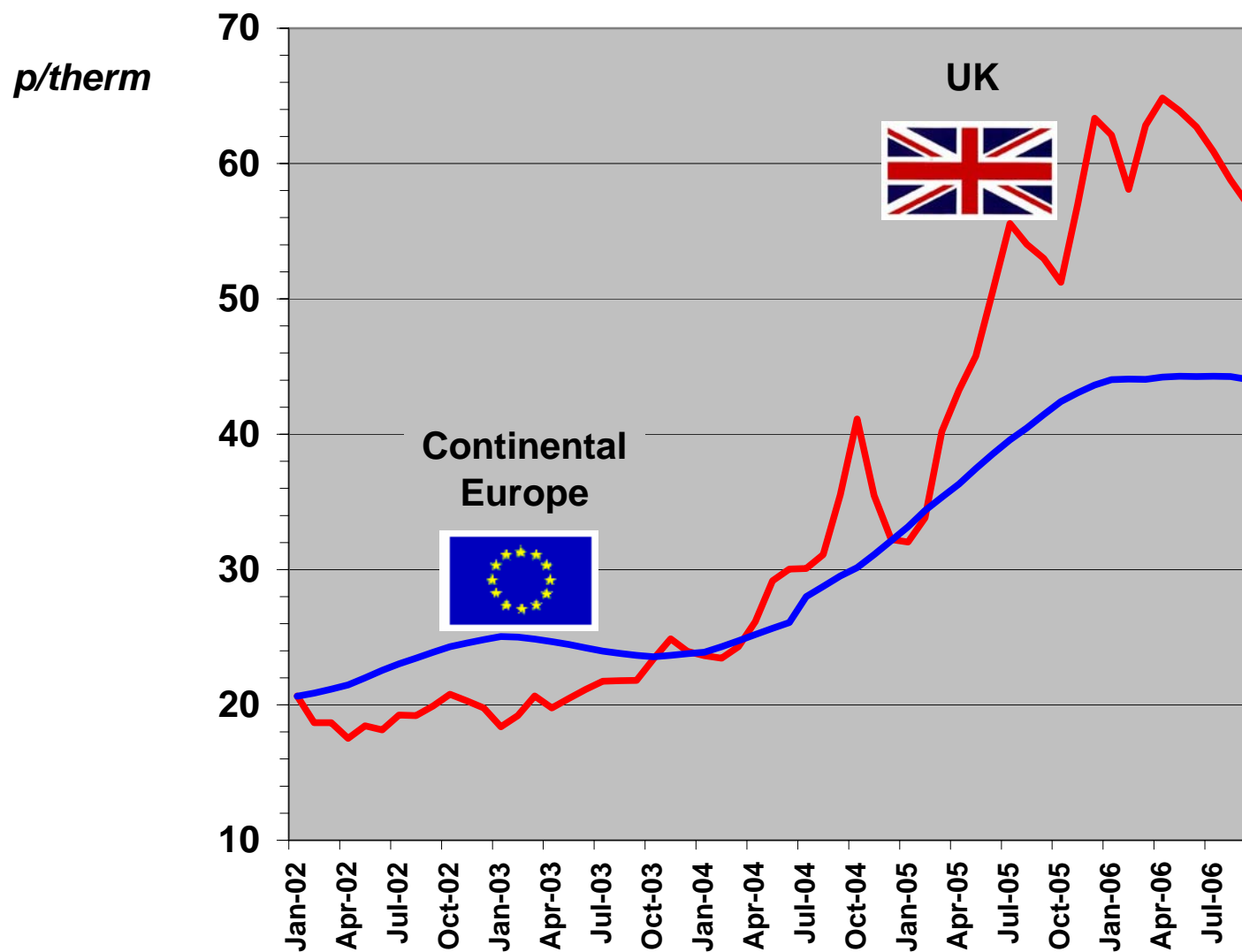
EIUG

Jeremy Nicholson (EIUG) - Ofgem,
Birmingham 27/09/06

EIUG members have been reporting:

- Tripling in cost of gas and electricity supplied to intensive users in last three years – doubling in 2005
- Users unable to contract ahead at competitive prices – currently +30% above EU (year ahead) / +50% (winter)
- Gas supplies to intensive users increasingly priced day-ahead – few traditional interruptible contracts left
- Physical, environmental, financial constraints on backup
- Unacceptably high risk of interruption in cold winter – without compensation – to preserve household supplies
- Significant disruption to production last winter – industry being priced out of the market

Wholesale Gas Prices - 1 year forward



Source: EIUG
25 July 2006

EEF Survey – Energy Prices to Manufacturers (1)

last twelve months – published 22 September

- **92%** reported increases in energy prices
- Gas prices increased by **55%** on average
- 80% reported gas price increases $\geq 30\%$
- Electricity prices increased by **42%** on average.
- 76% reported electricity price increases $\geq 30\%$
- **81%** of companies expected further price increases in next 12 months
– of these, 51% expected 'higher' and 31% 'significantly higher' prices
- 4% of companies had back-up supplies – of these, 32% could meet all supply needs

EEF Survey – Energy Prices to Manufacturers (2)

last twelve months – published 22 September

- **28%** changed gas supplier in last 12 months
- **31%** changed electricity supplier last 12 months

Length of Contracts (2005 figures in brackets)

Contract Length	% Companies: Gas	% Companies: Electricity
< 1 year	8 (9)	6 (6)
1 year	40 (56)	44 (56)
2 year	31 (23)	35 (28)
> 2 year	21 (13)	16 (11)

Demand Destruction (1)

Glass sector closures in last 18 months:

UK now has little or no Crystal, Automotive, Fibre, TV or computer screen manufacture left – more than 6,000 jobs have been lost, including those at:

Tyrone Crystal	Northern Ireland	Crystal Glass Manufacturers
SLI	Doncaster	Lighting Manufacturers
Pilkington	Birmingham	Automotive Glass Manufacturers
NEG	Cardiff	TV and Computer Screen Manufacturers
Therm Tempered	South Wales	Flat Glass Manipulators
Holinee	Glasgow	Fibre Glass Manufacturers
Lewis and Towers	Edenbridge	Container Glass Manufacturers
Epsom Glass	Epsom	Scientific Glass Manufacturers
British Optical	Walsall	Optical Glass Manufacturers
TSL Quadrant	Harlow	Quartz Glass Manufacturers
Caithness Glass	Wick	Crystal Glass Manufacturers
LG Philips	Burnley	Fibre Optics Manufacturers
Lancaster Fibres	Lancaster	Fibre Glass Manufacturers

Demand Destruction (2)

Paper sector closures in last 18 months:

- **Sunderland Paper Mill**
- **Sudbrook Mill**
- **Western Board**
- **Kilbagie Mill**
- **Taplow Mill**
- **Fettykill Mills**
- **Nash Mills**
- **Fort William Mill**
- **Purfleet Mill**
- **Langcliffe Paper Mill**
- **Springside Mill**

Demand Destruction (3)

Other recent closures and investment impacts:

- **Imerys** – china clay, Cornwall – 800 jobs lost
- **Britannia** – zinc smelter, Avonmouth – 500 jobs lost
- **Laycast** – iron foundry, Sheffield – 150 jobs lost
- Fertilizer, chlorine, brick & steel production all significantly disrupted last winter – and investment curtailed – but permanent closures appear, so far, to have been averted
- ONS reports 100,000 job losses in manufacturing in last 12 months – citing high energy prices
- ILEX report for DTI concluded 1.4 million jobs at risk in the event of a prolonged interruption to industrial gas supplies

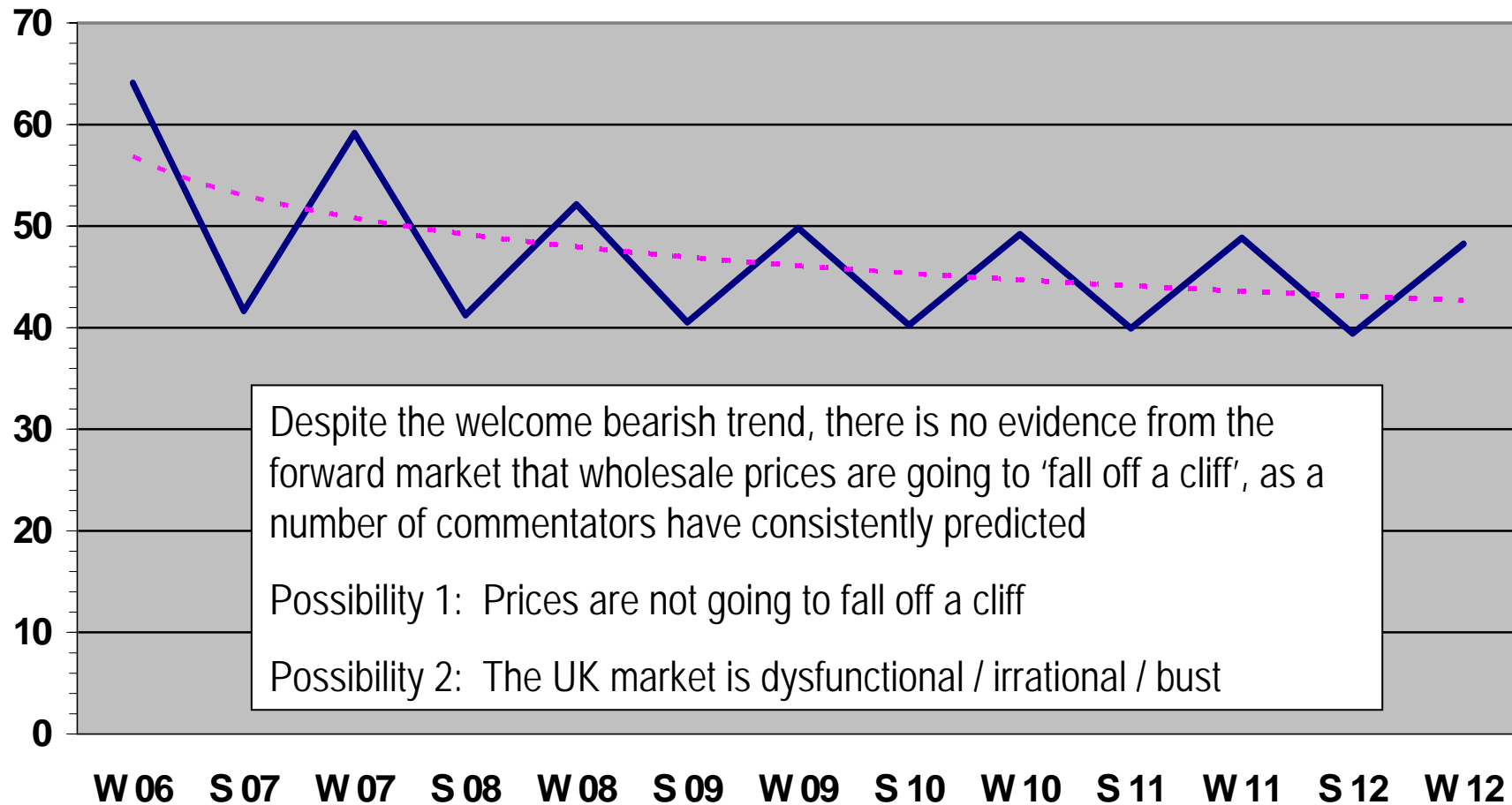
EIUG identified five areas where action needed to be taken well in advance of the coming winter:

- **Improve the use of import infrastructure** – *progress on IoG access – pipeline use unclear*
 - to ensure existing capacity is fully utilised
- **Improve the use of gas storage** – *somewhat overtaken by events at Rough / demand / LNG*
 - ensuring storage is priced at a cost-reflective level
- **Implement common commercial terms** – *ongoing discussions involving DTI & Commission*
 - ensuring equitable terms with respect to European industry
- **Improve access to market information** – *significant progress made – more to follow?*
 - to improve market efficiency (sub-terminal flow / IoG LNG storage)
- **Increase demand side response** – *limited progress – still waiting for ‘innovative products’*
 - compensating users for reducing demand when supplies are tight

Winter & Summer Gas Prices in Forward Market: 2006-2012

UK NBP - p/therm

Source: Spectron 22 September 2006



National Grid's Winter 2006/07 Consultation Report:

- Clear that significant industrial demand response may still be required – even in 1:10 cold winter
- The politicians' panacea – a.k.a. wind 'power' – subsidised by the consumer at a cost of £1bn pa – appears to provide the following secure supply:

0.000000 MW (approximately)

plea to National Grid:

please make the availability of wind power (or lack of it) is transparently clear in next year's report so its usefulness can be fully appreciated

Conclusions ...

- A balanced energy policy – with security of supply at its heart – is essential for the survival of energy intensive manufacturing
- DTI proposals on planning reform, nuclear etc. overdue – but welcome
- Lack of long range / strategic gas storage remains a pressing concern
- Lessons from recent winter experience:
 - Security of supply is a collective European / international issue – common approach required (especially regarding Russia / OPEC)
 - Demand side response is critical where supplies are constrained in the short term
 - Some demand destruction (especially in manufacturing) has already occurred – unclear at this stage how much more will follow