

About us

CIA is the organisation that represents chemical and pharmaceutical companies located throughout the UK.

The UK chemical and pharmaceutical industries have a strong record as manufacturing's number one export earner (on a value-added basis) and a provider of essential inputs to UK value chains. This includes products and technologies which are key enablers of climate change solutions. We therefore have a strong contribution to make both to rebalancing and greening the economy.

However, the chemical industry is energy intensive, competes globally for market share and inward investment, and has already done much to improve the energy efficiency of our existing production assets. Our contribution is therefore critically dependent on secure and competitive energy supplies and carbon reduction schemes which do not leave us internationally exposed. Energy is our number one issue.

Questions

1. Do you agree with our vision for the future of the energy retail market, the outcomes we are seeking to achieve and our characterisation of the key challenges we need to overcome?

The UK's energy markets are widely regarded to be subject to the most complex regulatory system in the world. It is extremely challenging for chemical businesses to operate within this system in an optimal way, when this is the day-job for the "supply-side" and Ofgem make limited reference to industrial competitiveness.

We strongly agree that the future energy retail market must provide competitive prices for all. However, we would expand the concept of "competitive" from one that focuses on the difference between the cost of supply and the cost to consumer, to one that includes the global context. As an energy intensive industry (EII) competing in a global market, we are faced by rising cumulative energy and climate related costs which are eroding our international competitiveness:

- **UK electricity prices are 65% higher than the EU median for large users.** This reflects the pass through of costs from the UK-only Carbon Price Support (CPS), subsidies for renewable power (Contracts for Difference, Feed-in Tariffs, the Renewables Obligation, Capacity Market), and the increase in network capacity needed to balance and move it. EII compensation schemes, while welcome, are narrowly focussed and only provide partial aid.
- **... and prices are likely to increase.** As you are aware, Ofgem are conducting a network price control review - the 5-year financial allowances for GB network owners - and an associated charging review to redistribute network costs across classes of user. The Government is targeting an almost four-fold increase in offshore wind generation by 2030 and pursuing expensive new nuclear generation. But, other than the Industrial Energy Transformation Fund (IETF) - which risks being thinly spread, there has been little action to address its manifesto commitment to deliver the "lowest energy costs in Europe".
- **Gas prices are globally uncompetitive.** UK gas prices are competitive within the EU, but compare less well to those of indigenous gas producers such as the US and Middle East, which host some of our major competitors. Furthermore, our comparative advantage in Europe will be quickly eroded if the policy cost of decarbonising the gas grid is placed on gas consumers, as it was with electricity. The growth of investment in chemical manufacturing in the US, and stagnation of UK investment, is testament to the impact of low-cost gas that shale has unlocked. A cheap domestic supply of shale gas could lower the UK gas price, increase supply security, bring employment opportunities and help with the balance of payments. Cheaper natural gas would, in turn, reduce the cost of hydrogen production through steam methane reforming, and provide a lower carbon alternative to imported US liquified natural gas (LNG), itself originating from shale. But the Government's low seismicity thresholds for fracking create an effective moratorium on UK shale gas development.

As we see it, the vision for the energy supply should be to:

- **Deliver affordable and secure supplies, to rebalance industrial competitiveness.** To do this, the Government must:
 - 1) Effectively realise the benefits that competition can deliver, including efficient and timely investment, cost reductions and security of supply;
 - 2) Source electricity from the least cost, most secure options;
 - 3) Focus on the determination of targets for security of supply and standards of performance for market participants;
 - 4) Focus on benchmarking emerging costs and risks, relative to competitor nations;

- 5) Ensure effective and meaningful competition in the provision of asset related investment across the entire energy landscape;
 - 6) Ensure we rapidly transition away from increasingly outdated industry structures, geographic monopolies and regulatory funding frameworks that are unable to adapt in a sufficiently agile manner to the evolving landscape;
 - 7) Ensure effective and meaningful competition in the retailing of electricity and the services around the supply of electricity, including demand management services, data collection and provision.
- **Improve the transparency, clarity and simplicity** of all elements of cost associated with the provision of power, to regain consumer confidence and ensure competition amongst providers. Adopt the mechanism proposed by Dieter Helm in his Cost of Energy Review, which aims to simplify and streamline explicit fixed cost elements for consumers bills, alongside the publication of outturn wholesale costs. This would provide a clear comparator, which alongside international benchmarking of cost, would drive out greater efficiencies.
 - **Fair and appropriate distribution of cost.** Government must clearly determine how costs are allocated between consumer groups, to ensure international competitiveness across the UK economy and affordability for domestic consumers, including manufacturers.

BEIS and Ofgem must act decisively to protect the interests of existing and future gas and electricity consumers, ensuring that energy prices do not unfairly penalise the international competitiveness of EIs manufacturing in the UK.

2. Are there examples of new products, services and business models that would benefit current and future consumers, but are blocked by the current regulatory framework?

No comment.

3. Are there current or emerging harms to energy consumers which are currently out of scope of the regulatory framework? Do these differ for domestic and non-domestic consumers?

No comment.

4. Would it be beneficial to allow suppliers to specialise and provide products and services to targeted groups of customers? If so, how can this be delivered while balancing the need for universal service?

No comment.

5. Are incremental changes to regulation sufficient to support the energy transition and protect consumers? Or does this require a more fundamental reform, such as moving to modular regulation?

No comment.

6. Are there any other potential market distortions we should be considering as part of our review?

No comment.

7. Would removing the thresholds for the Energy Company Obligation and Warm Home Discount help remove imbalances in the retail market, and could this be done without significantly increasing barriers to supplier entry or expansion in the retail market?

No comment.

8. How could the delivery burden on suppliers from the Energy Company Obligation be reduced, for example through the introduction of a buyout mechanism?

No comment.

9. What effect does the range of Energy and Climate Change Policy Levies have on the retail market?

UK energy and climate change policy levies make our energy costs uncompetitive relative to competing nations. According to the Government's most recent quarterly figures, the cost of electricity in the UK is more than 65% above the EU median for large energy users. A major contributing factor to this, is that £100 billion has been spent on support for low carbon power generation to date and this cost has been borne directly by consumers, and disproportionately by energy intensive manufacturers. This has been accompanied by a rapid escalation in network costs, required to expand network capacity, to connect and move a more distributed and intermittent energy supply. These costs acutely impact the competitiveness of the UK's energy intensive foundation industries, with a follow-on impact on the entire supply chain of UK industries who depend upon our products. Please also see our response to Question 1.

We have limited energy efficiency potential. We have already addressed the economic "low-hanging fruit" (having improved our energy efficiency by 42% since 1990) and have limited remaining energy efficiency potential from current technologies. Furthermore, high energy and carbon related policy costs make it difficult to attract investment. The majority of our members are multinational firms with global budgets, in which energy efficiency projects compete with other projects around the world, many of which have better returns. For EIs, conventional opportunities to further decarbonise require a favourable investment environment, which means low energy and climate related policy costs and stable, predictable governance. The absence of these conditions means the investment case for energy efficiency projects disappears.

We cannot pass through the cost of decarbonisation to the consumer. Our members compete in a global marketplace, in which our consumers can switch to suppliers based in locations that are not exposed to the cost of transitioning to a low-carbon grid. This means that chemical manufacturers in the UK cannot share the policy cost of decarbonisation with our consumers. As we decarbonise the UK's grid, we need to find a way to keep UK products and producers competitive, or we will lose out to manufacturers who do not pay the indirect cost of emitting greenhouse gases and are therefore able to offer their products more cheaply. The result of pricing energy intensive industry out of the UK is that we end up importing products with a higher emissions footprint, made in locations with poorer environmental regulation. The Committee on Climate Change have emphasised the importance of not offshoring emissions for this reason, in both their Net Zero advice and in their follow up 2019 Progress Report.

To avoid the loss of our domestic manufacturing base we urge BEIS and Ofgem to support cost mitigation measures for foundation industries like ours, that are at risk of carbon leakage, are subject to the policy cost of decarbonisation, and are unable to reduce our energy costs via energy efficiency.

The reward for doing so would be a green chemicals industry at the heart of our manufacturing supply chain, adding value to the UK's low carbon economy through the provision of innovative technologies that mitigate the impacts of climate change (e.g. batteries, fuel cells, insulation and advanced materials for light-weighting vehicles and generating clean energy).

10. What actions could government take to reduce any negative impact of Energy and Climate Change Policy Levies?

Costs must be fairly and appropriately distributed amongst consumers. As advised by Dieter Helm's Cost of Energy Review¹, legacy investment cost should be ring-fenced and itemised in consumers bills and, to mitigate the negative impact on industrial competitiveness, industrial consumers should be made exempt. All future significant investment in our energy systems should be distributed in a fair and proportionate manner, that does not impact our international industrial competitiveness. For example, we agree with the Cost of Energy Review that the Government must consider whether a mandatory coal closure programme would be more cost-effective than the CPS, currently employed to phase out unabated coal-fired power stations.

Investment must be cost-effective and technology neutral. Again, we agree with the recommendation of the Helm Review; further decarbonisation of power generation and network infrastructure must be cost-effective and technology neutral. We support a rapid transition away from technology-specific subsidy mechanisms to a single capacity auction route, based on carbon price signals and intermittency derating.

Implement the recommendations of Dieter Helm's Cost of Energy Review. The recommendations of Helm's Review address many of the challenges faced by the Government and its regulators. We believe that they would deliver more competitive and secure energy supplies, as well as the carbon reduction aims of the Clean Growth Strategy, and wider Industrial Strategy. We would encourage the government to rapidly develop and communicate a programme aimed at delivering the full suite of Helm's recommendations at the earliest opportunity, thereby allowing market forces and greater competition to deliver secure, affordable energy supplies and meet the carbon targets to which the UK is committed.

11. Do you agree that now is not the time to make further changes on system and network cost recovery, metering and access to data as part of this retail market review?

No comment.

12. What total costs do suppliers face with regards to bad debt and supporting consumers who struggle to pay for their energy?

No comment.

13. How could any potential distortions related to high cost-to-serve customers be addressed, for example by the provision of additional support services for customers struggling to afford their energy?

No comment.

¹ <https://www.gov.uk/government/publications/cost-of-energy-independent-review>

14. Would addressing market distortions (for example size-based obligation thresholds for some policy schemes, supporting those who are struggling to afford their energy bills) help reduce incentives for suppliers to adopt pricing strategies that lead to excessive prices for loyal consumers? If so, to what extent (providing quantitative evidence, where possible)?

No comment.

15. What are your views on the measures being considered to address loyalty penalties in different markets? What approach or – combination of approaches – would be most effective in the energy retail market?

No comment.

16. What other approaches could be adopted to ensure loyalty penalties do not re-emerge?

No comment.

17. What protections or support may be required to engage consumers in vulnerable situations in the future market?

No comment.