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**EIUG response to the consultation on frameworks for future systems and network regulation**

**Introduction**

1. The Energy Intensive Users Group (EIUG) is an umbrella organisation that represents the interests of energy intensive industrial (EII) consumers. Its objective is to achieve fair and competitive energy prices for British industry. It represents manufacturers of steel, chemicals, fertilisers, paper, glass, cement, lime, ceramics, and industrial gases. EIUG members produce materials which are essential inputs to UK manufacturing supply chains, including materials that support climate solutions in the energy, transport, construction, agriculture, and household sectors. They add an annual contribution of £29bn GVA to the UK economy and support 210,000 jobs directly and 800,000 jobs indirectly around the country.
2. These industries are both energy and trade intensive – remaining located & continuing to invest in the UK and competing globally requires secure, internationally competitive energy supplies and freedom to export without tariff barriers. However, inward investment, growth and competitiveness have been hampered for years by UK energy costs higher than those of international competitors.
3. Key points

* Ofgem to appraise how the options might impact on consumers – domestic and non-domestic – in particular minimising the risk of the network monopolies using their market power at the detriment of consumers;
* Consumer Engagement Group to continue providing independent challenge to the network operators in specifying needs and providing views to Ofgem on whether their Business Plans address the needs and preferences of consumers and other stakeholders;
* The EIUG supports a whole-system approach, anticipatory investments and reform of the way assets connect to the networks;
* The EIUG asks Ofgem to align its regulatory decision-making with Government’s policy-making by including the risk of carbon leakage in its analytical framework.

**Archetypes for future network regulation**

1. For archetype 1 ‘plan to deliver’, Ofgem correctly identifies the criticality of governance issues and alignment between Ofgem, devolved administrations, independent system planners and other bodies. The EIUG agrees with Ofgem that once sufficient specification of needs and plans has been agreed, cost control can be achieved by ensuring that good procurement practices are in place.

**Q.1. What should the role of the ‘consumer’ be and through what institution and processes should it be channelled?**

1. As the transmission system operator and distribution system operators are monopolies, there incentives are not always aligned with the interest of consumers. There is ample theoretical and empirical evidence of this in the academic literature and evaluation reports and, therefore, there will be a need to involve consumer representatives in the process to agree specification of needs and plans.
2. The enhanced stakeholder engagement process, as established under RIIO-2, therefore remains an important part of the regulatory process to challenge the TSO and DSOs, and Customer Engagement Groups (CEGs) form a key part of that. The EIUG believe that CEGs can continue to provide independent challenge to the TSO and DSOs in specifying needs and views to Ofgem on whether their Business Plans address the needs and preferences of consumers and other stakeholders.
3. In case of the TSO, its CEG membership should probably include Citizens Advice, relevant academics, independent experts with experience in energy network, officials from DESNZ and representative(s) of the non-domestic sector.
4. In case of the DNOs, their CEG membership should mirror the one for the TSO but with a more regional or local focus. Some DSO need to pay particular attention to an industrial cluster and its energy consumption and decarbonisation needs and it would therefore be appropriate to include a representative of these clusters into the respective CEG.

**Q.4. What is your view on the options identified for simplification of incentive regulation? What would be the benefits and cost by comparison to the approaches used in RIIO-2?**

1. The EIUG believes that the options for simplification of the incentives depend on the level of uncertainty for the project: RPI-X would be appropriate where uncertainties are limited, the project or operation is well-understood and appraised, but a more flexible ex-post productivity-based cost assessment is more appropriate for project or operations with a higher level of uncertainty.
2. The EIUG would like to express is doubt fully applying archetype 3: ‘freedom and accountability’. As Ofgem and consumer stakeholder already have an information asymmetry vis-à-vis the network operators – and the fact that network operators’ incentive are not fully aligned with consumers – this model risks confronting them with irreversible facts, like over-investments, potentially at the detriment of consumers.

**Designing future network regulations**

**Q.5. What are the benefits and costs of this approach for Electricity Transmission by comparison to an evolution of the approach in RIIO-2, and what are implementation barriers?**

1. The EIUG support the proposed approach of different incentive schemes based on activity, with a more flexible scheme for projects or operations with a higher uncertainty level.
2. In particular, the EIUG supports allowing anticipatory investments in a strategically planned system. Anticipatory investments might lead to some sunk cost and consumer detriment, but current approach has led to inability of assets to connect to the transmission and/or distribution networks and has in all likelihood deterred investments at the consumer detriment in the long term.

**Analytical framework and next steps**

1. The EIUG stresses that the analytical framework aligns with the Government’s analytical and policy frameworks by including the risk of carbon leakage into it (see HMT’s [Net Zero Review](https://www.gov.uk/government/publications/net-zero-review-final-report)). Government has made and will make policy changes, in the form of compensation and exemptions, to minimise the risk of carbon leakage to energy intensive industries by bringing industrial electricity prices more in line with those charged to energy intensive industries in other countries. Relative high electricity (or gas) prices pose a welfare risk to energy intensive industries exposed to international competition.
2. Analysis of any future of network regulations should also take into account how other countries set their network charges, how these are reflected in energy prices and whether the prevailing interpretation of the concept of cost-reflectivity puts any particular consumer group at a structural disadvantage internationally (see [CEPA](../Allocation%20of%20electricity%20network%20charges%20to%20different%20consumer%20groups%20in%20selected%20countries) research).
3. The EIUG therefore advocates including distributional analysis, in particular an appraisal of the carbon leakage risk, into the analytical framework.

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