

## **EIUG Response to Ofgem Call for Input on the Non-Domestic Gas and Electricity Market**

### **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
  - The main conclusions of the EIUG survey amongst energy intensive industries last summer were that respondents expected more energy suppliers to respond to their tender, impression that competitive supply contracts are getting more difficult to agree with suppliers and a change in management fees and limits on forward fixing as part of the supply contract;
  - The EIUG would like to emphasise the difference between the domestic and non-domestic market. Although the latter has seen suppliers exiting the market, it has not seen any supplier failure;
  - The EIUG calls on Ofgem to reflect the risk of carbon leakage in its regulatory decision-making, as this risk is significant for a specific group of energy intensive consumers.

## **Pricing and Contracting Behaviour**

4. The EIUG circulated a survey amongst energy intensive industries about competition in the non-domestic energy supply market last summer and has shared responses and analysis with Ofgem. The main conclusions of the survey were that respondents expected more energy suppliers to respond to their tender, the impression that competitive supply contracts are getting more difficult to agree with suppliers and a change in management fees and limits on forward fixing as part of the supply contract.
5. A few more energy suppliers have exited the non-domestic energy supply market since the EIUG survey.
6. On suppliers' risk management and contract conditions, the EIUG believes that any condition, such as deposits, should be proportionate to the risk of default by the customer. This risk varies per customer and the EIUG encourages Ofgem to ask suppliers to be more sophisticated in their risk assessment of their customers. In turn, suppliers should be more transparent with their customer on how they conducted the risk assessment.
7. The EIUG has advised individual energy intensive businesses to raise any particular issues, in particular in relation to the Energy Bill Relief Scheme, between them and their supplier with Ofgem directly, as these issues can be commercially sensitive.

## **Competition in the Market**

8. The EIUG has not received information that offers to contract energy supply have increased. Though energy intensive industries can still strike a new contract, the response to their tenders remain far more limited than before prices started to escalate in 2021. The EIUG does not expect that suppliers who exited the non-domestic market will quickly enter it again now prices have come down. The market remains uncertain.
9. The EIUG would like to emphasise the difference between the domestic and non-domestic market. The latter market has been far more competitive since liberalisation with more suppliers active and more bespoke supply contracts, in particular for energy intensive industries. Though some suppliers have exited the non-domestic market, it has not seen supplier failures to the extent of that in the domestic market. The EIUG would therefore advise against applying regulation to address domestic supplier failure to the non-domestic market as this may deter new entry and negatively impact competition. The EIUG would recommend Ofgem interview those energy suppliers who have exited the non-domestic market to understand the reasons why they left.

## **Focused regulatory support for specific groups of customers**

10. Energy intensive industries do not call for regulatory support as for micro-businesses, but the EIUG suggests Ofgem takes the risk of carbon leakage of these industries into account when it decides on changes to regulation and network charges. Currently, its approach to network charges includes a harmful distortion in the sense that design of these charges increases the risk of carbon leakage.
11. HMT's [Net Zero Review](#)<sup>1</sup> defines carbon leakage as; *“Climate rules and policies designed to reduce emissions in a given country can increase the costs of production of its businesses (including indirectly because of the impact on the price of inputs, such as energy) relative to international competitors if those competitors are subject to weaker climate change mitigation policies. If such rules and policies are not implemented in an equivalent way across jurisdictions, this can result in production and the associated greenhouse gas (GHG) emissions being displaced, undermining the original environmental objective of climate mitigation policies - this displacement of GHG emissions is known as carbon leakage”* (p. 26).
12. Energy intensive industries tend to be far more price elastic, including to network charges, than other electricity consumers in the long term. Energy intensive industries that use the network and are exposed to international competition may close or relocate their operations or future investments to other countries due to relative higher network charges. Economic activity that would have otherwise been economic would be inefficiently moved outside of the UK.
13. The Government has recognised this risk and has taken various policy measures, such as compensation for the indirect emission cost due to the UK ETS and carbon price support mechanism and a reduction in the cost of its renewable financing policies for eligible energy intensive industries, but Ofgem has not taken action for elements of the energy prices it has authority over. The EIUG calls on Ofgem to reflect the risk of carbon leakage in its regulatory decision-making.

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<sup>1</sup> HM Treasury (2021), *Net Zero Review Final Report*, London: HM Treasury