

EIUG Response to the Consultation on Ofgem's Forward Work Programme – 2024/25

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. The EIUG generally agrees with Ofgem's draft forward work programme, but would like to make the following points and suggestions;
 - Ofgem to set out how it intends to interpret the new Net Zero and Growth duties, with its existing duties, and communicate this to stakeholders;
 - Ofgem to consider the risk of carbon leakage in its regulatory decision-making;
 - The EIUG supports Ofgem's work on accelerating and reforming electricity network connections for generation **and demand users**;
 - Ofgem to work with the ESO to introduce an incentive to capture the economic benefit of avoiding inefficient network capacity expansion to deliver value for consumers;
 - The EIUG wants to highlight the importance of the future of the gas grid for gas-intensive industries;

- Ofgem to reflect the lack of evidence how local marginal pricing might impact on large electricity demand users in its continued work on the development and assessment of wholesale market reforms.

New Duties and SPS

4. The Energy Act 2023 introduces a specific duty on Ofgem linking consumers' interest to specific Net Zero targets. The Government will also extend its growth duty to the economic regulators, including Ofgem. There can be significant trade-offs between Net Zero and economic growth and the EIUG would like Ofgem to set out how it intends to interpret these new duties with its existing duties, and communicate this to stakeholders. This would give stakeholders clarity how Ofgem intends to interpret these new and existing duties in terms of its regulatory decision-making.
5. Additionally, Government has taken various measures to reduce the risk of carbon leakage by reducing electricity prices for certain energy intensive industries. Last year, it took measures via its 'British industry supercharger' to reduce electricity prices further and committed to introducing a UK carbon border adjustment mechanism. Various Government strategies note that mitigating the risk of carbon leakage as an important strategic priority. However, the risk of carbon leakage does not feature in Ofgem's regulatory decision-making.
6. The Strategy & Policy Statement (SPS) ought to be the obvious way to align Government and Ofgem on this issue, yet the draft as consulted on in summer last year did not include the mitigation of the risk of carbon leakage as an important strategic priority. To avoid (further) misalignment between Government and Ofgem, the EIUG called for the SPS to include the mitigation of the risk of carbon leakage in its priorities and for Ofgem to consider this risk in its regulatory decision-making.

Enabling infrastructure for Net Zero

7. As the forward work programme recognises "*given the scale of network build will dwarf anything in Ofgem's history, it is important that we ensure energy network companies do so in a way that delivers a high quality of service to consumers at reasonable cost. This includes the ongoing performance management of existing RIIO price controls, ensuring the ability of low carbon generation to connect as required, and encouraging ongoing innovation*". The EIUG would like to point out that getting a network connections is also an issue for demand users.
8. It would like to reference British Steel's [press release](#) on its proposals to decarbonise its operations stating that they "*studied having one large electric arc furnace based in Scunthorpe, one which was capable of manufacturing all of the steel we require for our rolling mills in the Humber and the North East. However, such a large furnace would require a new National Grid connection and it is*

anticipated this would not be available until 2034". Getting a transmission or distribution (or both) connection (upgrade) is quickly emerging as an issue making it more difficult for companies in other energy intensive sectors to decarbonise as well. The EIUG support Ofgem's work on accelerating and reforming electricity network connections for generation **and demand users**.

9. On the other hand, the major expansion of the electricity networks to connect new generation, new demand and low carbon technologies will potentially significant increase network costs and charges. Up till last year, National Grid has an incentive scheme in place called 'Triads' to avoid inefficient infrastructure capacity by incentivising large demand users to minimise their consumption from the electricity transmission at certain peak times. However, Ofgem has regulated this incentive away as part of its Targeted Charging Review and there is no indication that its Charging Future programme has grasped this benefit. The EIUG urges Ofgem to work with the ESO to introduce an incentive to capture the economic benefit of avoiding inefficient network capacity expansion to deliver value for consumers.
10. The EIUG would also like to highlight the importance of the future of the gas grid. Continued access to gas at competitive prices remains crucial for the UK's gas-intensive industries until low carbon alternatives, such as hydrogen, become commercially available.

Deliver effective and efficient market incentives and signals

11. In terms of REMA, the EIUG notes that various think tanks, academics, consultancies, and National Grid ESO have conducted economic assessments of the costs and benefits of moving to nodal or zonal pricing. The latest one is an assessment of locational wholesale electricity market design options by FTI Consulting and the Energy Systems Catapult for Ofgem published in October last year. It concludes that the *"overall expected net benefit to GB consumers of a transition to nodal pricing varies between £28bn and £51bn over the 16-year modelling period depending on the scenario. When evaluated on a socioeconomic basis, the expected net benefits of a transition to nodal pricing are between £13bn and £24bn. Zonal pricing would result in consumer and socioeconomic benefits at approximately half of the level of nodal pricing"* (p. 16).
12. Almost all analyses assume that new generation and investment in large electricity demand will move to where on a node or in a zone the electricity wholesale price is cheapest. In case of ELLs, none of the analyses provides clear evidence as to whether and why electricity prices are the only or key determinant for new investments to locate – they simply assume it is – or ignore the demand side all together. The FTI Consulting report states *"after discussions with stakeholders and in agreement with Ofgem, in our modelling, we have not sought to capture this hypothesised benefit of locational pricing [for demand users]. The reason for this is that it is more difficult for us to make informed assumptions on*

the price sensitivity of demand, relative to that of generation and storage in which we have detailed cost assumptions that have been verified by the ESO and other third parties”.

13. The EIUG is sceptical about locational wholesale pricing for electricity consumers, especially nodal pricing and would like to refer to its [response](#) to the Government’s REMA call for evidence. Furthermore, a move to nodal pricing is unlikely to incentive demand users to move as investments already made will have created sunk cost and any move in response to nodal pricing is likely to be prohibitively expensive thereby negating its intended effect. The EIUG encourage Ofgem to reflect this in its continued work on the development and assessment of wholesale market reforms.

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