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Electricity Distribution Price Control Review – Initial Proposals do

Response from the Chemical Industries Association

The Chemical Industries Association¹ welcomes the chance to respond to Ofgem's initial proposals for the Electricity Distribution Price Control Review. As large intensive energy users, *secure and competitively priced energy is essential to our membership, which competes in globally traded markets.*

We appreciate the steps Ofgem have taken so far to scrutinise the DNOs proposals however we are deeply concerned with the large allowed revenues, averaging an increase of 5.3% annually, compared to DPCR4 (in fact out of all fourteen DNOs only one sees a decrease). The chemical sector is keen to encourage investment to continue the high level of network resilience. We also recognise the need to ensure that the increase of intermittent energy on our networks does not have a detrimental effect. However at a time when large industrials are facing potentially more environmental taxes, such as the CCS levy and RHI, on top of already existing measures such as the RO, CCL & EUETS. Coupled with the possible impact of the common distribution charging methodology. We question whether these large increases are merited. With two thirds of the UK chemical industry headquartered overseas, uncompetitive electricity prices will only result in this investment going elsewhere. We therefore ask that Ofgem take full account of these high increases and ensure that all investment is merited especially investment to reinforce the network due to the addition of intermittent energy.

We also have concerns with the high-allowed cost of capital. Even in the current economic climate, investments in regulated monopolies are very safe especially when comparing to other industrial investment such as chemical works.

As a final comment although this document highlights Ofgem's initial view following scrutiny of the proposals. We hope that unlike other price control determinations – where

¹ The CIA has a membership of around 150 of the larger companies in the UK chemical and pharmaceutical industry, which has an aggregate turnover in excess of £60bn and directly employs almost 200,000 highly skilled people. It is the only major sector to maintain a significant positive trade balance, typically registering a surplus of £5bn annually. *Further details in the appendix at the end of this submission*



CIA members are committed to Responsible Care

middle ground is found between Ofgem and the DNOs - that further analysis and scrutiny will result in lower final determinations compared to these initial proposals.

Regards

Gareth Davies
Climate Change and Energy Executive

Appendix

CIA credentials

The CIA is the leading representative and employers' body for the UK chemical industry, with 150 members at over 200 manufacturing sites. Some sites produce bulk chemicals by energy intensive processes; others make smaller volumes of speciality chemicals. Almost all depend upon energy inputs at some stage of their operations.

Turnover of the UK chemicals sector in 2006 was £57 billion (including merchant goods). It accounted for 1.5% of UK GDP and almost 12% of manufacturing's gross value added. [Source: Office for National Statistics (ONS), *Annual Business Inquiry*.] It employs some 200,000 highly skilled people directly and supports several hundred thousand jobs throughout the broader economy. The chemical industry typically contributes an annual surplus of £5bn to the UK's balance of payments [Source: ONS]. The industry is global both in terms of markets and ownership, with over 65% of CIA's membership being foreign "headquartered". Any significant imbalance between the UK business climate and other markets can therefore lead to the loss of UK trade and investment.

The industry is one of the most energy intensive sectors of the economy, and accounts for 22%² of total industrial energy consumption. Gas is also used as a feedstock for making many chemical products, including fertilizers. The industry's annual combined energy and feedstock bill amounts to an estimated £2.5 billion³. The industry has an excellent record of improving energy efficiency. As part of its ongoing commitment to energy efficiency, the CIA is part of a negotiated Climate Change Agreement with UK Government to deliver an aggregate improvement in efficiency of 34% between 1990 and 2010. A significant proportion of these improvements have already come from additional Combined Heat and Power (CHP) plants and the chemical industry now generates over 30% of its own electricity requirements, most of which is from CHP⁴.

² Source: BERR "Energy Consumption in the United Kingdom", as updated July 2007, Chart 4.2

³ Extrapolated from 2004 input-output data from the Office of National Statistics.

⁴ Source: BERR, Digest of UK Energy Statistics, Chart 5.2 (electricity usage) and Table 6.8 (CHP output)