

Amendments to the Gas Transmission Charging Regime Consultation

About EIUG:

The Energy Intensive Users Group (EIUG) represents the UK's energy intensive foundation industries including manufacturers of steel, chemicals, paper, glass, cement, lime, ceramics and industrial gases.

Our members produce materials which are essential inputs to UK manufacturing supply chains. This includes materials which support climate solutions in the energy, transport, construction, agriculture and household sectors. We make an annual contribution of £15bn to UK GDP, supporting 200,000 jobs directly and 800,000 jobs indirectly.

However, as foundation industries, we are both energy and trade intensive. We are also largely internationally owned. If we are to compete in the global markets in which we operate and remain located and investing in the UK, we need access to secure, internationally competitive energy supplies and freedom to export to our neighbours without tariff barriers.

The UK's Energy Intensive Industries (EII's) want to work with the government to help them achieve their decarbonisation targets and to help reduce global carbon emissions. The EIUG believes that this can be achieved without forcing UK industry to relocate.

If the UK gets industrial decarbonisation right, we could become a world leader in the policies and processes that will attract industry to the UK. Get this wrong, and the financial burden of decarbonisation will result in UK industry becoming uncompetitive in the global market and will be forced to close or relocate to other areas of the globe which will not help achieve the global decarbonisation/temperature targets.

Consultation Response from the Energy Intensive Users Group

The EIUG wants to remind Ofgem that the UK's Energy Intensive Industries (EII's) are already at a financial disadvantage to many of their global competitors as a result of the high UK energy and climate costs. The cumulative effect of upcoming energy price increases – including the Gas Transmission Charging Regime, will have a significant effect on whether the UK's EII's are able to survive over the short – medium term

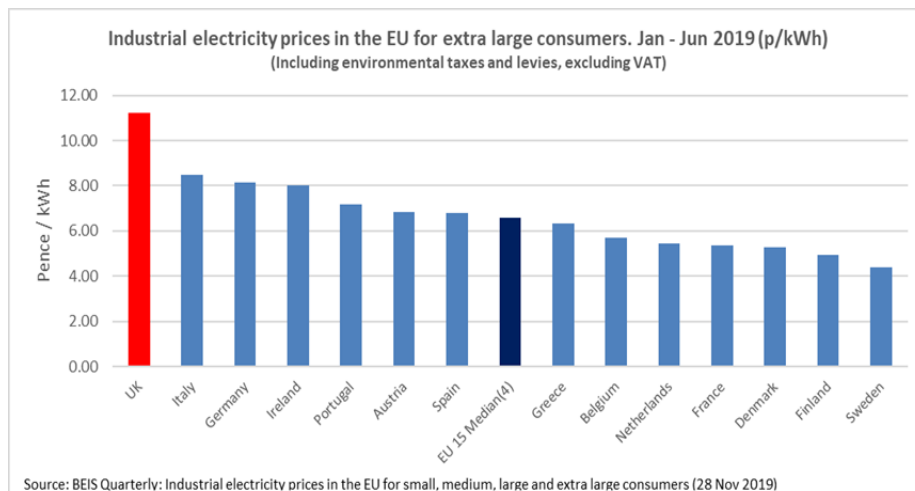
Statistics published by BEIS in November 2019, showed in the six months to June 2019, electricity prices (incl. taxes) for extra-large industrial users in the UK were the highest of the EU15 and were 70% above the EU15 average (see chart 1).

UK gas prices are more competitive with our European neighbours because of the liquidity of the UK gas market and due to the fact that the gas industry is only in the early stages of its decarbonisation journey. However, if the costs for decarbonising heat are placed on UK Industry in the same way it has been with

1. https://www.ofgem.gov.uk/system/files/docs/2020/01/riio-2_challenge_group_independent_report_for_ofgem_on_riio-2_business_plans.pdf

decarbonising power, it is only a matter of time until UK gas prices are in a similar position to electricity prices when compared to our global competitors.

Chart 1: EU Industrial Electricity Prices for extra-large users, incl. taxes (Jan – Jun 2019) – P/kWh



With the finalisation of RIIO-2 for Gas Transmission, Gas Distribution (and Electricity Transmission), it has been reported that network companies are asking for an additional £4 billion of expenditure compared to RIIO-1 (a 20% increase)¹. This is without Electricity Distribution price control which will not be finalised until 2023. The energy intensive industries can expect to pick up a large proportion of those network cost increases, but due their international competition, will not be able to pass those cost increases onto their customers.

Energy costs increases expected following the Gas Transmission Charging Review/Mod 678 implementation and the removal of the gas shorthaul tariff. This proposal alone will result in the gas transportation charge increasing for some EII's by several millions of pounds per year which will make it economically viable for them to build their own duplicate gas pipeline with their neighbouring industrial sites. This cannot be an efficient use of industry assets or finances.

In the longer term, if costs are placed on EII's for decarbonising heat (hydrogen/Carbon Capture & Storage), network reinforcements for the electrification of heat and transport and new nuclear, EII's will eventually be priced out of the UK, only for their products to be replaced by imports; many of which that have a higher carbon footprint than the equivalent UK product. Whilst this means that UK production emissions will decrease as production is offshored, global carbon emissions will increase.

The UK's EII's have already invested heavily in the decarbonisation of their processes/products. To achieve the next level of decarbonisation though, major investment will be required in infrastructure development such as electricity network reinforcement, hydrogen networks and CCUS networks. This is not achievable for EII's individually (either financially or technically) but will need the co-operation and coordination of multiple organisations and will take time to implement.

This consultation states that "UNC678A does result in a significant increase in the entry tariff for gas storage... which may negatively impact on revenues for these facilities. The EIUG is concerned that this will place further financial pressure on UK gas storage facilities which will may result in further storage facility closures reducing the security of supply for short term supply issues.

Additionally, the EIUG is concerned that "by avoiding a distance-based cost driver, UNC678A will encourage flows from the cheapest sources of entry regardless of location on the NTS". Gas production is not able to

1. https://www.ofgem.gov.uk/system/files/docs/2020/01/riio-2_challenge_group_independent_report_for_ofgem_on_riio-2_business_plans.pdf

be transported to any entry location based on price signals. Norwegian pipeline gas for example can only enter the NTS at a few locations (St Fergus & Easington), LNG only at Milford Haven and Isle of Grain, West of Shetland Gas production only at St Fergus, Interconnector flows only at Bacton. It is irrelevant what Entry Capacity Prices are, flows into those entry points will be governed more by the physical infrastructure rather than the price signals.

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