

Forward Work Programme 2020-22

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.

Consultation Response from the Energy Intensive Users Group

Whilst the EIUG welcomes the publication of Ofgem's Forward work Programme, the EIUG is disappointed that there is nothing included on protecting Energy Intensive Industry (EII's) consumers (only protection for domestic and micro-business consumers is considered in the Forward Work Programme). The UK's EII's are already at a financial disadvantage to many of their global competitors as a result of the high UK energy costs. 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).

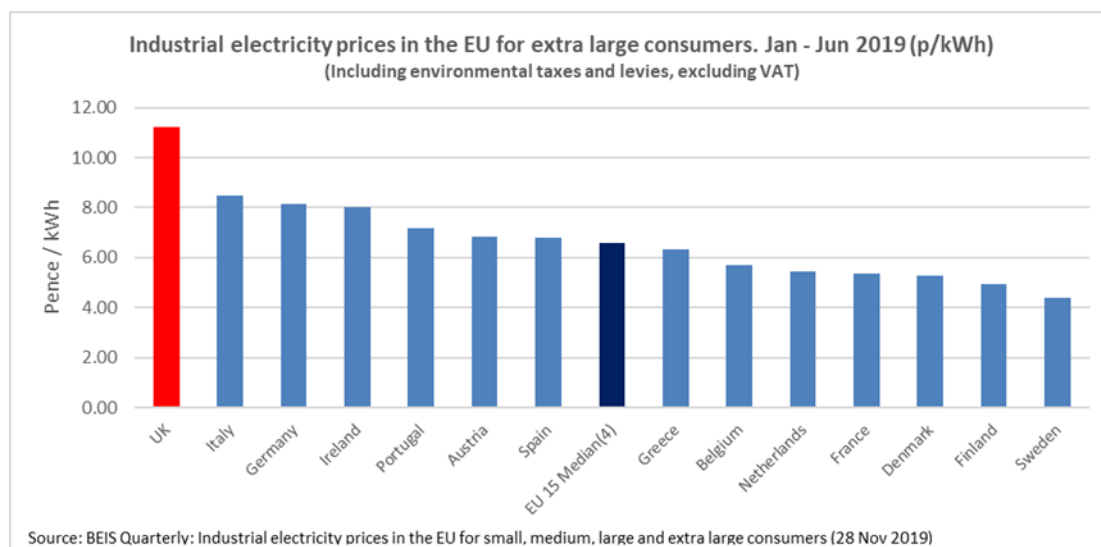
With the finalisation of RIIO-2 for Electricity Transmission, Gas Transmission and Gas distribution, it has been reported that network companies are asking for an additional £4 billion of expenditure compared to RIIO-1 (a 20% increase)¹. This is without Electricity Distribution price control which will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

Cost increases are also expected following the Transmission Charging Review/Mod 678 implementation and the removal of (or possible recalculation of) the gas shorthaul tariff. Current proposals for a recalculation of the shorthaul tariff will result in the gas transportation charge increasing for some EII's by millions of pounds per year. This will make it economically viable to build their own duplicate gas pipeline with their neighbouring industrial sites which cannot be an efficient use of industry assets/finance. Greater consideration must be given by Ofgem to how protection from high energy costs can be offered to EII's to ensure they can remain competitive in global markets.

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

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 UK production emissions will decrease as production is offshored, global carbon emissions will increase.

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



It is well known that these headline figures though do not provide an accurate view of the situation for the majority of EII's. There exist many discounts, compensations and exemptions available to many industrial energy users from the costs of carbon, renewables, and networks. For example, whilst the figures above indicate a relatively high unit cost of electricity for industry in Germany, the reality is that for many users the price actually paid is less than half of that indicated above. EIUG recognises that exemptions have been introduced in the UK as other EU countries, but it should be noted that they are not as extensive, not as widely available to industrial consumers and are diluted in their effectiveness by the UK's higher wholesale energy prices and carbon prices. For example, UK brick and clay roof tile manufacturers do not receive exemption from the indirect costs of renewables – unlike their competitors in Germany.

Comparing like for like pricing data that includes all the various government exemptions, is hard to come by and varies across the different sectors. A consistent request from industry is for the Government to produce thorough analysis of this issue on an annual basis. In the absence of independent analysis, UK Steel has conducted its own research investigating the prices faced by steel producers based in the UK, Germany and France. The 2019/20 analysis shows that the average electricity price difference between the UK and Germany was at £19/MWh, whilst the difference between the UK and France was £22/MWh. This means UK steel plants were paying 62% and 80% more, respectively, than their German and French counterparts last year. The price disparities equate to a total additional cost to UK steel producers of around £47 million per year compared to those in Germany. Similar disparities exist in other industries too.

EIUG has long argued that UK EIIs receive inadequate levels of relief from indirect costs of renewable power generation compared to their European counterparts. The principal reasons are: i) the 20% electricity intensity threshold is too high and out of line with the equivalent relief measures available to many EII competitors elsewhere in Europe; and ii) the fixed reference electricity price used in the UK is lower than many EII companies pay, giving a misrepresentative (lower) electro-intensity. EIUG proposes that the current 20% threshold should be reconsidered and lowered to a level necessary to minimise distortion of trade between the UK EIIs and their EU competitors. The electricity reference cost used in the calculation must also be reflective of the costs in that sector.

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

One of Ofgem's priorities in the Forward Work Programme relates to innovation and encouraging change in the retail market to help deliver a net zero carbon economy by 2050. It could be beneficial to Ofgem, energy companies and EII consumers if a proportion of Network Innovation Allowances and Network Innovation Competitions funding could be dedicated to value chain projects – for example, projects that inform the wider energy transition or provide shared learning for industrial consumers, generators, distribution and transmission companies.

Ofgem quite rightly has a duty to protect vulnerable energy consumers but protecting the UK's EIIs should not be overlooked. The EIUG members include industries which support climate solutions in the energy, transport, construction, agriculture and household sectors and support one million UK jobs (directly and indirectly). Continuing to place the cost of decarbonisation upon UK industry will place further pressure on industries in an already cost competitive environment which ultimately could result in UK industries closing; UK jobs being lost which will increase the number of vulnerable energy consumers.

To understand how the UK contributes to global carbon emissions, consumption emissions should be reported along with territorial/UK production emissions. Reducing carbon emissions from UK production achieves nothing from a global perspective if the UK is simply offshoring emissions elsewhere and increasing imports.

UK industry should be given the necessary time to plan for and invest in new technologies. The UK's EIIs 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. This is not achievable for EIIs individually (either financially or technically) but will need the co-operation and coordination of multiple organisations and will take time to implement. The UK's EIIs should not be mandated to decarbonise before these other processes have been commissioned and proven.

It is essential that policies are agreed as soon as possible to ensure that industry knows the preferred decarbonisation pathway. Industry investment cycles for large infrastructure projects are typically ~ 20 years (but can be much longer) so it is critical that decisions about decarbonisation pathways are made soon as the net zero target is potentially only 1 investment decision away for most EIIs. There is evidence that investment is being withheld from the UK until clear policies have been made about the decarbonisation pathway. A clear energy strategy will enable industry to understand risks and invest in decarbonisation technology accordingly.

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.

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