

**EIUG Response to the Consultation on the Future of the Industrial Energy Transformation Fund**

**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.

**Part 1 – Phase 3 of the IETF**

**1. Is the IETF achieving its aim of supporting first movers?**

1. The EIUG thinks that the key objectives of the IETF should be on deployment of technologies to increase energy efficiency and reduce greenhouse gas emissions. Having sub-objectives – such as support for first movers – can reduce the focus on the key objectives. As long as the IETF can support deployment of energy efficiency and reduction in greenhouse gas emissions and demonstration of industrial decarbonisation technologies, it is less relevant whether these technologies are first-mover, second-movers or close followers.

**2. What are the main barriers to investing in deep decarbonisation or energy efficiency technologies**

1. Government has conducted extensive research into the main barriers to investing in deep decarbonisation or energy efficiency technologies and these should be well known in Government by now. Also, the initial 2019 IETF consultation identified the main barriers correctly. Nevertheless, it is worth reviewing the note to BIS by the Green Investment Bank with their experience and challenges to support industrial energy efficiency, in particular the internal investment decision-making process companies go through. Furthermore, the Energy Efficiency Taskforce organised a roundtable on industrial energy efficiency and no doubt will present further analysis about investment barriers in their final report.

**3. What role does the IETF play in addressing investment barriers, and does this differ to other public and private financing options?**

1. The IETF leverages private investment that would not otherwise likely to be made. It supports business cases into energy efficiency and decarbonisation to reach final investment decision by improving investment criteria, accepting part of the risk and signal Government support to those investments.
2. Other public financing options, such a tax breaks, can support investment in energy efficiency and decarbonisation as well, but direct IETF funding can be more targeted at the specific needs of the investment. Private finance providers often still lack the knowledge of the often more bespoke industrial energy efficiency and decarbonisation investment, can have a far shorter time horizon than Government and loans increase debt for industrial users.

**4. . Do you agree with the range of SIC codes proposed to determine IETF eligibility? If no, what additional categories of activity (using SIC code descriptors if possible) should be included or excluded and why?**

1. Yes, bearing in mind that eligibility is already quite comprehensive for a limited budget.

**5. Do you agree with the decision to limit IETF support to existing sites and processes? Are there any opportunities being missed and, if so, how could the energy and emissions impacts of these projects be evaluated?**

1. Yes.

**6. Do you agree with the decision to limit IETF support to investments or studies that are relevant to onsite infrastructures only? Are there any opportunities being missed and, if so, what types of off-site investment should be permitted?**

1. Yes.

**7. Do IETF rules currently encourage collaboration and the creation of beneficial consortia arrangements? If no, how can we improve this?**

1. Business will collaborate with other organisations when necessary to apply to the IETF and deliver the project. However, too many organisations involved increase delivery complexity because of the various differences in interest at the detriment of the project itself and the EIUG would ask Government not to make collaboration a criteria in its assessment of project bids as it could lead to projects that could be less VfM, including in terms of energy efficiency and greenhouse gas reduction. Furthermore, the ISCF Transforming Foundation Industries programme has already cross-sector collaboration and academic-industry knowledge transfer at its heart.

**8. Do you agree with the current minimum grant thresholds set by the IETF? If no, what amount should they be amended to? Please explain your rationale including details on what types of project and site would benefit from the change.**

1. Yes.

**9. What financing routes would you typically consider when developing a project? Do you have access to all the routes you need, and how do you determine whether grant funding is required to unlock investment in a project?**

1. What finance routes a business would consider depends on its individual circumstances. What access to external finance they have largely depends on price, quality of investment proposal and confidence in management to deliver.

**10.At feasibility study stage, would industrial sites benefit from an expansion in scope so that the IETF funding can also support an options analysis of technologies?**

1. Yes, industrial users can be confronted with multiple technologies to improve energy efficiency or reduce greenhouse gas emissions of their existing manufacturing process. An optional analysis can therefore help to inform what technology might work best. Nevertheless, the focus should be on deployment of technologies to increase energy efficiency or reduce greenhouse gas emissions.

**12. Are there any other changes to the range of eligible technologies or scope of deployment strand support that might improve outcomes?**

1. Based on the BIS-DECC work on the industrial 2050 roadmaps, Government has comprehensive data of the technologies available to increase energy efficiency or reduce greenhouse gas emissions in energy intensive industries. Furthermore, since the IETF is already oversubscribed, the EIUG sees little need to increase the scope of activities eligible.

**13.** **Do you have any comments on the application process and delivery through to post award for the IETF? for the IETF? Please explain any practical considerations the government should consider when designing IETF Phase 3 or other future schemes.**

1. The IETF Phase 1: first-stage process evaluation report provided two recommendations to improve the application process. One of these recommendation is for a two-stage assessment process. It may not be necessary to go that far, but feedback to applicants on obvious errors after they submitted their application and time to correct any would be useful, if not already implemented.
2. As the process evaluation concludes, the IETF application process follows Government guidance on grant funding. However, as the evaluation notes ‘*applicants reported to us that they had invested considerable resource in submitting applications – the IETF Team’s Post-Application Survey suggested 85 hours on average, and our interviews revealed around two to four weeks of full-time work, although a larger range was report*’. Though most firms agreed that the work to provide the amount of information required to complete the application was proportionate to the amount of the IETF, the evaluation also notes that ‘*some non-applicant firm expressed a view that the level of detail and effort required for the application process was high, and that the effort:reward ratio was not favourable, or in the words of one consultee ‘not worth the hassle*’’. The Government guidance on grant funding might want to reflect the resources businesses need to allocate to submit an application instead of focusing only on the information Government requires for its assessment and assurances needs.
3. The information asked for in the application process has become specialised and the application process should allow consultant to submit an application.

**14. Do you have a clear understanding of the range of government support that is available to you and how to access it? Please expand on your answer, describing how you currently identify funding opportunities and any ways in which the accessibility of this support could be improved.**

1. The EIUG has a reasonable good overview of the range of Government support that is available to large energy users and notes that this is fairly limited to support industry to achieve Net Zero.

**22.What do you see as the IETFs long term role in supporting industry to save energy and reduce emissions? Please consider how the IETF should interact with other decarbonisation and energy efficiency policies to avoid duplication and maximise value for money.**

1. The EIUG advocate continue grant-funding to finance energy efficiency and decarbonisation of large energy users, particularly in light of its target to increase energy efficiency.
2. A hydrogen business model or CCUS business model might financially support hydrogen and CCUS when implemented at some point in the future.
3. The Government has tried to financially support industrial energy efficiency and decarbonisation with the Green Investment Bank and British Business Bank. Based on their experience, the UK Infrastructure Bank is likely to have to same lack of success. Instead, the IETF is more successful in supporting energy efficiency and decarbonisation in large energy users, mainly because of grant funding instead of loans.
4. Also, in relation to the risk of carbon leakage and industrial competitiveness, the Government policy toward these objective is inconsistent. One the one hand, Government is in the process to reduce non-commodity cost on industrial electricity prices and has consulted on introducing carbon leakage mitigation measures but, on the other hand, it proposes to reduce free ETS allowances and introduce new levies on electricity and gas potentially undoing the first. This lessens large energy users confidence to invest in energy efficiency and decarbonisation and the IETF helps to increase investment confidence.

**Part 2 – The Long-Term Role of Government Support Post-2025**

**23. Do you support the principle of technological neutrality in the IETF? Should any particular technologies or sectors be excluded or prioritised in future support should it become available?**

1. The EIUG support the principles of technological neutrality and does not advocate that particular technologies or sectors should be excluded or prioritised. Any sector or technology prioritisation would mean a more complex process and will deter application that might be more VfM.

**24. What type of support will industry need out to 2035 to enable energy efficiency and decarbonisation projects to be replicated and deployed at scale? Would any of the following provide an effective intervention: support for capital costs, operational costs, access to finance or information, clarity on grid capacity and connections or the availability of hydrogen, or capacity building?**

1. The EIUG advocates all of them to support industry to increase energy efficiency and decarbonise out to 2035. There is no single measures that would achieve those objectives on its own and the EIUG would guard against thinking that there might be a silver bullet.

**25. Which of the following would provide an effective funding mechanism for energy efficiency and decarbonisation projects out to 2035, and could any become more attractive or necessary: grants, loans, guarantees, and equity? Do you feel that the existing balance between these different types of government support is appropriate?**

1. Grant funding. The financial support option generally depends on the maturity of a technology and the market failure the policy is trying to address, but just like deployment of renewables under the CfD, direct subsidies are likely the most effective.

**26. Besides energy and emissions savings, what wider benefits could funds like the IETF deliver? How would you assess and evaluate these benefits?**

1. Wider benefits that the IETF could deliver is safeguarding the competitiveness and decreasing the risk of carbon leakage for energy intensive industries. The analysis and framework to assess these benefits are set out the Department of Business and Trade’s review of the EII exemption schemes and HMT’s Net Zero Review.

Arjan Geveke

Director EIUG