

**EIUG Response to the Consultation on the Strategy and Policy Statement for Energy Policy in Great Britain**

**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.

***Do you agree that Ofcom, Ofgem and Ofwat should be included in the scope of the growth duty specified in the Deregulation Act 2015?***

1. Yes, we agree that the economic regulators should be included in the scope of the growth duty. However, the EIUG believes that the growth duty should not only apply to those businesses that are part of the business community, as defined in the statutory guidance under section 110(6) of the Deregulation Act 2015, but also to businesses as consumers, whose interest the regulators aim to protect, as set out in their primary duties.
2. Energy intensive industries’ (EIIs) experience with Ofgem is that the regulator understands the businesses in its business community well – generators, system network operators, energy suppliers, etc. – but lacks an understanding of businesses as end energy consumers, and in particular how its regulations impact on the business environment of EIIs.
3. EIIs produce goods that are energy-intensive to manufacture and tend to be exposed to international competition. This means that any changes to energy prices, relative to energy prices faced by EIIs they compete with abroad, can have significant impact on their production cost and ability to compete. This will in return deter investments, trade and wider economic activities by EIIs.
4. One element of the retail energy price that Ofgem controls are network charges and how they are allocated to consumers. BEIS published a [CEPA study](https://www.gov.uk/government/publications/allocation-of-electricity-network-charges-to-different-consumer-groups-in-selected-countries) into the allocation of electricity network charges in selected European countries and the differences in costs[[1]](#footnote-1). The figure below from the study shows the variation in the use-of-system charges by country and consumer (with and without discounts).



1. Charges per kWh generally decrease with the size of the customer: users at higher voltage levels are allocated a smaller share of the overall costs and fixed/capacity charges are spread over a larger consumption base. EII users are generally below €1/kWh (even before discounts) apart from in Germany where specific discounts for large users are available. Nonetheless, the GB charges are at the higher end and Ofgem’s recent regulatory changes to transmission network use of system charges have put them up further.
2. The Government has introduced some specific measures to tackle electricity costs faced by the most energy intensive industries to ensure they are as competitive as possible with other countries. This includes compensation for the indirect emission cost due to the UK ETS and carbon price support mechanism but also part exemption from the cost of the UK renewable financing policies, such as the Renewables Obligation, small-scale feed-in tariff and the Contract-for-Difference. Although it should be noted that eligibility for schemes to compensate certain EIIs for the indirect emission cost due to the UK ETS and carbon price support mechanism is significantly shorter than eligibility for the EII exemption schemes and many EII sectors do not receive compensation for indirect emission cost. In Spring this year, DBT [announced](https://www.gov.uk/government/news/government-action-to-supercharge-competitiveness-in-key-british-industries-and-grow-economy) further “*targeted measures to ensure the energy costs for key UK industries are in line with other major economies around the world – levelling the playing field for British companies across Europe*”. The Government has recognised that securing a competitive future for these industries adds to the long-term resilience of the UK economy for global investment and thereby economic growth.
3. Furthermore, seeing the important role the economic regulators have in achieving Net Zero, HMT’s Net Zero Review recognised that climate measures “*designed to reduce emissions in a given country can increase the costs of production of its businesses (…) relative to international competitors if those competitors are subject to weaker climate change mitigation policies. If such rules and policies (…), are not implemented in an equivalent way across jurisdictions, this can result in production and the associated greenhouse gas (GHG) emissions being displaced, undermining the original environmental objective of climate mitigation policies - this displacement of GHG emissions is known as carbon leakage*”. The Government’s Net Zero Strategy recognises “*the importance of addressing the risk of carbon leakage so policy interventions do not lead to increased emissions elsewhere, and to ensure that UK industry has the confidence needed to fully decarbonise*”.
4. Whilst Government has recognised that the business environment of relatively high industrial electricity prices and the risk of carbon leakage deter investments and trade by EIIs – and is taking some measures to address them – the energy regulator has not. The EIUG therefore supports extending the growth duty to the economic regulators.

***What additional guidance would be beneficial to support effective implementation of the growth duty?***

1. The EIUG believes that additional guidance on understanding the differences amongst consumers and incorporating that understanding into internal analysis and regulatory decision-making would be beneficial. A better understanding of the business environment of different consumers is also required. For example, Ofgem already focuses more on fuel poor households – as per its secondary duties – and how its regulatory decision-making impacts on them, but has far less understanding of non-domestic consumers.
2. Ofgem did publish [research](https://www.ofgem.gov.uk/sites/default/files/2021-07/Final%20report-%20Research%20into%20GB%20electricity%20prices%20for%20EnergyIntensive%20Industries.pdf) into GB electricity prices for EIIs in 2021[[2]](#footnote-2). It found that there are three primary drivers of high GB electricity costs for EIIs.
* Wholesale price is the largest component of EIIs’ electricity cost and GB has tended to have a higher wholesale electricity price than many European countries. This is partly due to an electricity mix that uses comparatively expensive natural gas as the marginal fuel. The Carbon Price Support has also increased the marginal cost of electricity.
* While GB offers sizeable policy cost reductions for EIIs, these reduced policy costs appear larger than the reduced policy costs in the countries the research looked at.
* Network costs are also an important component of overall electricity cost. GB network costs appear higher mainly because Germany, France and the

Netherlands offer discounts on network costs.

Apart from drawing these analytical conclusions, Ofgem has not followed them up with any regulatory measures.

1. The EIUG therefore advocates that economic regulators identify the various characteristics of consumers whose interest they aim to project, apply the factors set out in section 2.4 of the statutory guidance to them and include the conclusion of their assessment into their regulatory decision-making.
2. It does mean the guidance needs to go beyond defining businesses as regulated entities and also see businesses as consumers.

***How would you envisage a regulator’s actions changing as a result of a growth duty? Please outline any benefits you can foresee.***

1. Consumers are not all the same, but a welfare economic approach to economic analysis to inform regulatory decision-making treats them the same. Including more redistributive analysis of different consumer groups and a better understanding of the business environment of them, in particular relative price differentials and risk of carbon leakage, will improve regulator’s assessment of how its regulation might impact them and whether it might deter investments of certain consumer groups.

***How do you foresee the growth duty interacting with existing statutory duties? Please provide examples.***

1. The EIUG does not foresee that extending the growth duty has significant trade-offs with the existing statutory duties. However, it does interact with Ofgem’s interpretation of cost-reflectivity. In case of energy consumers, it’s interpretation of cost-reflectivity can have an adverse impact on economic growth.

***Is there any evidence that this will add significant costs to regulators or business? If so, why and what would those costs be?***

1. The EIUG is not aware of any evidence that extending the growth duty will add significant costs to regulators or businesses.

***Are there alternative or additional means by which we could improve growth outcomes in these regulated sectors?***

1. The strategy and policy statements to the economic regulators might help, but their regulatory decision-making processes have more regard to duties.

Arjan Geveke

Director EIUG

1. CEPA (2019), *Allocation of Electricity Network Charges to Different Consumer Groups in Selected Countries*, [final report](https://www.gov.uk/government/publications/allocation-of-electricity-network-charges-to-different-consumer-groups-in-selected-countries) for the Department for Business, Energy and Industrial Strategy, London: CEPS [↑](#footnote-ref-1)
2. Ofgem (2021), *Research into GB electricity prices for Energy Intensive Industries*, London: [Ofgem](https://www.ofgem.gov.uk/publications/research-gb-electricity-prices-energy-intensive-industries). [↑](#footnote-ref-2)