Written Evidence Submitted by Arjan Geveke on behalf of the Energy Intensive Users Group

Energy Intensive Users Group (EIUG)

1. The EIUG is the 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. Its membership includes manufacturers of steel, chemicals, fertilisers, paper, glass, cement, lime, ceramics, and industrial gases. Its 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. The EIUG would like to submit a response to some of the questions the committee has posed in its inquiry, focussing on those relating to energy cost and the role of gas in the transition to Net Zero.

Businesses as Energy Consumers

3. Manufacturing industries consume over 17% of total UK energy consumption[1] and are therefore also significant energy consumers next to households. The price of energy increased dramatically in the second half of 2021 (see House of Common Library research briefing '*The energy price crunch*'). At the end of 2021, UK gas intensive industries exposed to international competition were being impacted by the widest gap in gas prices ever seen, relative to manufacturers beyond Europe. In case of electricity, September saw UK wholesale prices and price volatility soar to levels not seen for decades, with hourly prices peaking at £2,500/MWh. The monthly average UK wholesale cost reached £200/MWh – almost double French & German averages of £110/MWh.

4. Following the Russian invasion of Ukraine, the situation has worsened. Since the beginning of March 2022 gas prices have settled at ten times the price at the same time last year, with peak prices reaching sixteen or seventeen times higher in March 2022. Not only are households being impacted by high energy prices, but businesses too, and in particular energy intensive industries.

[1] Energy consumption in the UK 2021 - GOV.UK (www.gov.uk)

Replies to the Questions in the Terms of Reference

How effective will the Government's Energy Security Strategy be: at reducing reliance on oil and gas at the pace required to limit global heating to 1.5 degrees; securing alternative energy supplies; and protecting households from high fossil fuel prices?

5. The EUIG cautiously welcomed the announcement in the Energy Security Strategy to extend the EII compensation schemes for a further 3 years but emphasises that most energy intensive industries (EIIs) continue to be ineligible. The increase in compensation by capping the indirect emission cost at 1.5% of a company's GVA is especially welcome for those who are eligible. This will enable some UK EIIs to compete on a more even playing field and is a welcome step forward for those that remain covered. However, disappointingly, the schemes do not extend to all EIIs at risk of carbon leakage due to indirect emission cost in industrial electricity prices[2], nor do they close the industrial electricity price gap between Europe and the UK completely or alleviate the increase in gas costs since the autumn of last year. The EIUG therefore continues to call for measures to address escalated gas prices.

6. To support the transition away from fossil fuels (oil, gas and coal, which is still used in industry) requires alternatives to be developed and deployed. While the increase in hydrogen production announced in the strategy is welcome, demand will be very significant and require prioritisation to ensure that processes that cannot be electrified, such as HGVs and some industrial processes, are placed ahead of those that can (e.g. public transport and home heating). This will rely on Government policy, e.g. the decision over hydrogen in the gas grid.

Should Government policies on onshore energy generation or exploration be revised in light of the energy security situation? Given the current and potential speed of deployment, what low-carbon energy sources are most likely to secure supplies of affordable and sustainable energy rapidly?

7. The EIUG advocates that Government should support the deployment of the least-cost low-carbon energy sources. This will translate in lower energy prices, as long as such support is financed via energy bills. However, any support needs to take into account intermittency of low-carbon energy sources to avoid network balancing charges increasing energy prices relative to what they could be.

Which elements of the International Energy Agency's 10-point plans to Reduce Reliance on Russian Natural Gas and Cut Oil Use are relevant to the UK and which could the Government seek to implement as a priority?

[2] https://www.ofgem.gov.uk/publications/research-gb-electricity-prices-energy-intensive-industries

8. Energy markets are interlinked and therefore any significant measure abroad to reduce reliance on Russian natural gas or oil will have a price impact in the UK.

9. The EIUG would like to the draw the committee's attention to the IEA's recommendation to accelerate energy efficiency improvements in buildings and industry. The Government's current financial support programme to improve industrial energy efficiency is the Industrial Energy Transformation Fund (IETF) designed to help businesses with high energy use to cut their energy bills and carbon emissions through investing in energy efficiency and low carbon technologies. The government announced £315 million of funding in the 2018 Budget, available up until 2025. As capital assets used by energy intensive industries have long investment cycles, the EIUG would like to see the IETF increased and extended beyond 2025.

What impact will high prices for oil and gas have on production and the net zero transition? What are the pros and cons of a windfall tax levied on fossil energy producers? How should the revenue from any levy be allocated?

10. High energy prices risk leading to demand destruction of energy intensive industries and scaling back manufacturing productions as products may not be able to compete internationally. More specifically, as HMT's Net Zero Review pointed out, "*there is a risk that some business activity might move jurisdiction because of less stringent climate change mitigation policies elsewhere. This would undermine the environmental objectives of domestic mitigation in the sectors affected*". Climate change rules and policies designed to reduce emissions in a given country can increase the costs of production of its businesses, including indirectly because of the impact on the price of inputs such as energy prices, relative to other countries if those countries are subject to less ambitious climate change policies.

11. The potential stop in production of CO2 by CF Fertiliser without Government financial support is an example in case. Furthermore, dependence on fossil fuels for EIIs extends beyond just oil and gas, as some sectors are still reliant on coal as well.

12. High energy prices risk budgets allocated towards investing in Net Zero to just covering energy costs in the short term. In the more medium to long term, they risk investment moving to countries with lower energy prices with potential carbon leakage as a result.

13. EIUG is concerned regarding the proposals to accelerate the transition away from gas by rebalancing policy costs from electricity onto gas. Many gas-intensive sectors cannot be electrified and there are no viable alternatives to natural gas for them to switch to. Hydrogen and bio-methane are not currently produced in the quantities needed or at a competitive price. Rebalancing of policy costs onto gas prices increases the risk of carbon leakage for gas-intensive industries. A

more equitable and efficient way to develop and deploy low carbon technologies is to fund these via general tax revenue instead of obligations on energy suppliers or levies on energy prices.

Can the UK's oil and gas reserves be exploited while limiting global temperature rises to 1.5c in line with the Paris Agreement?

14. Gas will remain an important energy source in the transition to Net Zero for;
    - Generating electricity until cost-effective deployment of renewables, gas CCS and hydrogen at scale;
    - Generating heat for high-temperature industrial processes, until electrification, bio-energy, hydrogen and CCUS become technically and commercially viable, in addition to greater resource and energy efficiency.
    - As a feedstock (raw material input) to manufacturing basic chemicals.

15. The EIUG would like to draw the committee's attention to the letter from the CCC to Kwasi Kwarteng MP in connection with the consultation on the proposed Climate Compatibility Checkpoint for oil and gas licensing in the North Sea in which it says that "[*it*] *has not been able to establish the net impact on global emissions of new UK oil and gas extraction. UK extraction has a relatively low carbon footprint (more clearly for gas than for oil) and the UK will continue to be a net importer of fossil fuels for the foreseeable future, implying there may be emissions advantages to UK production replacing imports. However, the extra gas and oil extracted will support a larger global market overall. Whereas the evidence against any new consents for coal exploration or production is overwhelming, the evidence on new UK oil and gas production is therefore not clear-cut*".

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