

## Energy pricing and the future of the energy market

The closing date for submissions is 31 January 2022

### Theme 1 - The regulatory requirements companies must meet in order to trade as a regulated entity in the retail energy market.

1. No comment.

### Theme 2 - The mandate, role and performance of Ofgem in setting regulation and supervising regulated entities.

2. No comment.

### Theme 3 - The performance of previous policies introduced to stimulate effective competition within the retail energy market, and an assessment of the impact on competition of proposed future regulatory frameworks.

3. No comment.

### Theme 4 - The functioning and performance of the 'energy price cap' and an assessment of its use in the future, and an assessment of the role of auto-switching.

4. **Energy crisis:** Gas and electricity prices remain extraordinarily high. Whilst domestic customers have benefitted from the protection of the price cap, industrial consumers have felt the full brunt of high and volatile energy prices which are likely to persist throughout the winter. Energy intensive industries (EII) are already struggling to pass through the full cost increases to downstream consumers and as hedged energy positions unwind, a growing number of businesses are pausing, minimising production or bringing forward annual maintenance to navigate a precarious situation. Meanwhile downstream customers begin to look for alternative suppliers.
5. **Impact on competitiveness:** The chemical sector is deeply concerned about the inaction of UK Government regarding the rising disparity between energy prices faced by UK EII's compared to our competitors in Europe and beyond. A disparity that is getting worse because the existing EII package is only partially effective for a limited range of EII activities. Furthermore, countries like Spain, Italy and Portugal have experienced less dramatic price increases than the UK, but their governments have acted swiftly and decisively.<sup>1</sup> Vital inward investment in the growth and decarbonisation of UK EII's will be hampered by uncompetitive energy prices.

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<sup>1</sup> In Spain, there have been tax cuts including extending an existing suspension of a 7% power generation tax through year-end. The Special Electricity Tax is being cut from 5.1% to 0.5%. The Italian Government has pledged over €3bn to eliminate renewable levies on gas for industry and electricity for SMEs. The Portuguese Government has announced a minimum 30% reduction of network charges for industry.

6. **Policy support:** EIs need to take decisions to manage their businesses effectively and the absence of a government response is creating uncertainty. Urgent action is required, by BEIS and Ofgem, to reduce the price disparity between the UK energy market and that of our major industrial competitors. We urge the government to provide details on what action they will take to make UK delivered energy competitive, this winter and beyond.
7. **Short term action required:** 1) Introduce a 'Winter Cost Containment Measure' for gas, electricity and carbon prices to ensure that those most exposed to these costs can continue to operate this winter and compete internationally through the immediate cessation of uncompetitive policy on-costs such as 'Carbon Price Support'; 2) Ofgem to reduce EI network costs by replicating the network tariff discounts offered to competitor industries in the EU.

**Theme 5 - The future of Bulb and the recovery of public funds and the cost to consumers of other energy supplier failures.**

8. No comment.

**Theme 6 - The role of retail market reform in the context of the UK's net zero transition and domestic energy security requirements.**

9. No comment.

**Theme 7 - The comparison of UK wholesale prices and additional costs with the wholesale prices and additional costs across Europe.**

10. **Industrial energy cost:** UK chemical manufacturers provide the advanced materials that will underpin the net zero economy. New clean fuels, batteries and renewable heat and power technologies all rely on input from our sector. But we face disproportionately high and rising energy and climate-related policy costs which threaten to overwhelm our foundation industries, if policy support is not provided. Within government, energy and industrial energy policy has been implemented piece-meal, without a strategic oversight of the total cumulative impact on industry. The result is a large number of overlapping and conflicting policies which fail to provide the incentives needed for investment in the decarbonisation of the UK's industrial assets. The Climate Change Committee (CCC) highlighted, in its advice on net zero, that hard-to-abate, trade-exposed industry will require support for a just transition. It's Sixth Carbon Budget advice builds on this, referencing high electricity cost as a barrier to decarbonisation through electrification.
11. **Clean power policy cost:** Emission reduction in the UK's electricity sector is a success story that we should rightly be proud of. But we must acknowledge that this is a direct result of subsidy support which has been paid for by electricity bill-payers. To date over £50 billion has been spent on subsidies to decarbonise our electricity supply - through Contracts for Difference, Feed-in Tariffs, the Renewables Obligation and the Capacity Market - and this figure increases every year. These subsidies, which have supported an increasingly significant decarbonisation of the grid, now represent an increasingly significant proportion of industry's electricity bill. Electricity wholesale costs now represent just 49% of a UK industrial user's bill, whilst policy costs make up 36% and are rising.

12. **Clean power network cost:** The roll-out of renewables is welcome for reducing the emission footprint of living and working in the UK. Yet it must be recognised that their deployment has led to significantly increasing network costs, as reinforcement and expansion of the grid is required to balance distributed and intermittent renewables. EIs have disproportionately shouldered this increasing cost as Ofgem has shifted the network cost burden onto industry.
13. **Future power costs:** The most recent Energy White Paper's commitments with regards to the electricity sector include 40 GW more wind power, expensive new large-scale nuclear and CCS abated gas-fired power. These all come with additional policy and network costs for consumers. No measures to reduce industrial energy prices were put forward in the white paper.
14. **Future heat costs:** Moreover, our heating (natural gas) bills will rise to unaffordable levels if the cost of decarbonising heat is levied on the bill-payer as was done with electricity. This process seems to already have begun with the government's proposals for a Green Gas Levy to support biogas injection to the grid and rumours of a Hydrogen Levy to follow. Taking the electricity system as a parallel, over £50 bn has been spent on policies to support its partial decarbonisation to date and this figure increases every year. All of this support has only partially decarbonised the electricity grid. To put this in context, the UK's electricity grid provided 325 TWh of energy in 2018, whereas the UK's gas demand was 877 TWh. Given the scale of the clean heat transition, and the higher production cost of manufactured green gases (e.g. hydrogen or biomethane), a far more significant amount of long-term financial support is needed to decarbonise the gas grid.
15. **Paying our way:** As outlined in paragraphs 11-13, it is possible to see how UK manufacturers are paying for the country's clean electricity transition at the expense of their own competitiveness. The transition so far has left UK industry with electricity prices >80% higher than the EU median and far above our major industrial competitors. Data from the International Energy Agency shows UK industry faces the second highest industrial electricity prices globally. Underlying all of this is the fact that if our sites close, not only will the UK lose well-paid jobs in science-based industries but the increased network and policy cost that industry has so far absorbed will be reapportioned to the remaining bill-payers. On the current trajectory, we would lose productive UK assets and end up with expensive domestic energy bills.
16. **Current policy support:** Until now, carbon leakage protection in the form of electricity price compensation, together with comparatively low natural gas costs (in Europe at least), have helped us to remain competitive. But compensation is not available to all sites and does not cover enough of the increasing cost burden described in paragraphs 11-13. Furthermore, there is currently no compensation for the policy cost passed through in gas bills (see paragraph 14).
17. **Policy commitment vs action:** The CCC's Sixth Carbon Budget makes clear that industrial electricity prices are "well in excess" of the costs that would reflect supplying low-carbon electricity and that this is a barrier to industrial decarbonisation (i.e. via fuel-switching from natural gas to electricity). The government should act now, to monitor and benchmark our industrial energy prices against those of our competitor nations. Providing UK industry with a level playing field during the clean energy transition will mean lower-carbon UK goods are able to compete for market share around the world, lowering the global footprint of consumption. This would allow us to nurture science and engineering at home, whilst showing the world an attractive pathway to low-carbon manufacturing.
18. **Long term action required:** 1) Provide EI sectors with full relief for the legacy and future policy cost associated with renewables, as per Dieter Helm's Cost of Energy Review; 2) Provide EI

sectors with full relief for the future policy cost associated with decarbonising the gas supply until low carbon cost-competitive alternatives are available; 3) Provide EIs with full relief from indirect carbon prices (UK ETS and UK-only Carbon Price Floor).

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