

Response from the Energy Intensive Users Group to the Ofgem Consultation on Proposal to Take Forward the Reform of Distribution Use of System Charges Under a Separate Significant Code Review on Revised Timescales

Introduction

The EIUG represents the UK's Energy Intensive Industries (EIs) including 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 to UK GDP, supporting over 210,000 jobs directly and 800,000 jobs indirectly around the country.

These foundation 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. In some cases, investment, economic activity & jobs have relocated abroad, leading to a subsequent increase in imports.

1. Do you agree with our proposal to descope DUoS from the Access SCR and take it forward under a dedicated SCR with revised timescales?

EIUG does not have a strong view on the proposal to descope DUoS from the Access SCR. Whether taken forward as part of the Access SCR or as a separate SCR, the proposals have the potential to redistribute energy network costs, and therefore whatever route is chosen, it is vital that EIUG and its members are involved in discussions and consulted throughout the review. It is also important that impact assessments consider the redistributive effects between consumers and the cost impact on EIs specifically, including consideration of how any change contributes to the cumulative energy cost burden that already falls on EIs from other policy and network costs. DUoS is a complex area and some concern has been expressed within the EIUG membership that descoping DUoS from the Access SCR could increase complexity and hinder our ability to see the holistic impact of proposed changes. To aid industrial consumer understanding of the impacts of the proposals, clear briefings should be produced that set out any proposed changes to enable industrial consumers to plan their operations and budgeting processes effectively.

2. What are your views on timescales for implementation of DUoS reform? How does this interact with wider market developments and what do we need to take into account?

The aim to implement DUoS proposals in 2025 seems reasonable although without knowing exactly what the implications of the proposals will be and the impacts on EIs, it is difficult to understand if this will provide enough of a lead time for EIs to budget accordingly. EIUG suggest that the implementation date is kept under review as proposals are formulated and EIs consulted on the final date of implementation.

3. What areas of interactions of DUoS with wider developments in policy/industry do we need to consider in our review?

EIUG is deeply concerned about energy cost impacts facing EIs in relation to wholesale, network balancing costs and decarbonisation levies and associated costs. Delivered energy costs make up a large proportion of operating costs for EIs, often in the region of 40% or more. Uncompetitive energy costs can therefore very

quickly impact the competitiveness of UK EIIs in international markets. Ofgem's own analysis¹ found that GB wholesale prices, policy costs and network costs tend to be higher than those of other European countries. The report found that network costs are higher in the UK compared to France, Germany and the Netherlands because these countries apply network cost discounts for eligible EIIs, which can reduce their network costs by up to 90% in some cases. These countries offer discounts because they recognise that EIIs add value to the grid by providing steady baseload demand, that can help with balancing.

On top of these already high costs, Ofgem are considering how to distribute the circa £3bn and rising SOLR costs, and unfortunately EIIs could be faced with paying a proportion of these costs, even though they arise from the setting of a domestic price cap that has protected domestic consumers from the exceptionally high energy prices, while industrial consumers have had to bear significant wholesale price increases.

Every policy and network cost is assessed in isolation, and as a result appears to be affordable to EIIs and therefore deemed not to cause a problem. However, if the cumulative burden of these costs were properly assessed, the result would be quite different, and would show that lots of small costs add up to millions of pounds on EII bills, which makes UK energy prices higher than anywhere else, and which renders EIIs uncompetitive.

In terms of interactions of DUoS with wider developments in policy/ industry, EIUG is therefore deeply concerned about how any additional DUoS cost will be placed on EIIs and if this cost is affordable when considered alongside the cumulative burden of other policy and network costs. The review must therefore consider any change in DUoS costs alongside the cumulative burden of energy costs. This will likely require input from BEIS and EII consumers to provide information required to perform a full assessment.

4. Have we considered all the impacts of a phased approach to delivering the original scope Access SCR?

No comment.

5. Do you have any views on our proposal to retain the scope and governance arrangements of the original Access SCR?

No comment.

6. Do you have any other information relevant to the subject matter of this consultation that we should consider?

No comment.

¹ Ofgem 2021, "Research into GB electricity prices for Energy intensive Industries"