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By email

Arjan Geveke
Assistant Director Energy Policy
Department of Business, Energy and Industrial Strategy
1 Victoria Street
London SW1H 0ET

Dear Arjan,

Review of the schemes to compensate energy intensive industries for indirect emission costs in electricity prices

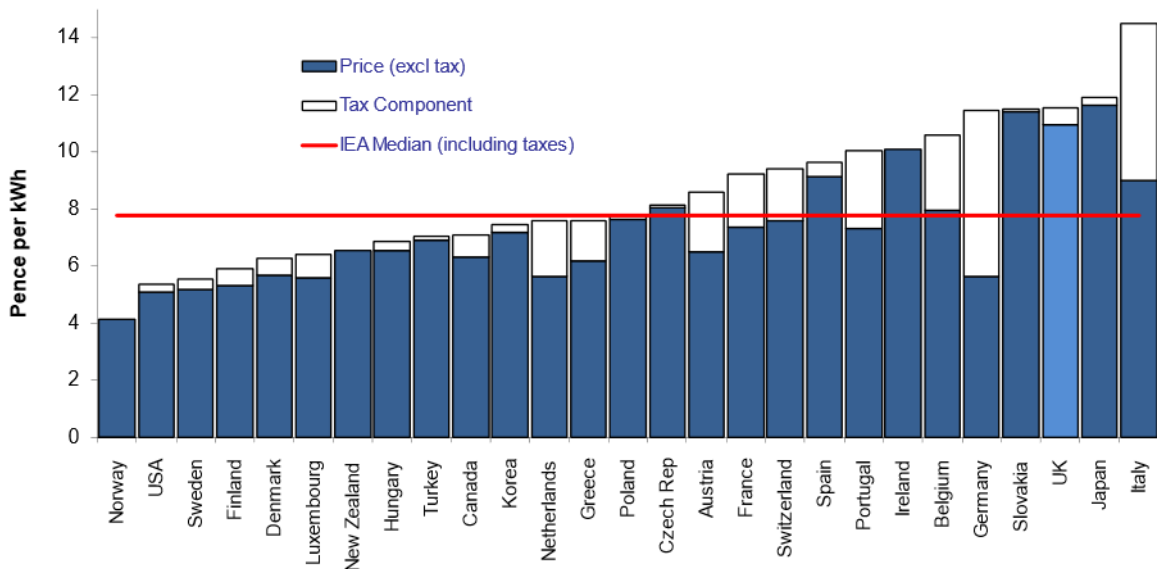
This letter is by way of an ETG response to the review of the schemes to compensate energy intensive industries for indirect emission costs in electricity prices. The Emission Trading Group (ETG) represents a range of industries subject to the requirements of the UK ETS scheme.

As you will appreciate, it is for our members to respond from their individual standpoints. However, I am writing to draw attention to the widespread concern within the ETG around the implications for decarbonisation and net zero of the current level of electricity prices resulting from both ETS and the carbon price support, as well as from policy levies relating to legacy renewable schemes. Among others, this is relevant to the topics raised in questions 12, 13 and 14 of the consultation.

Your question 13 envisages the use of current compensation to deliver on industry decarbonisation plans whilst question 14 asks about the conditions that would be most effective in incentivising greater energy efficiency or decarbonisation.

Many industries are likely to need to increase purchases of electricity to move towards net zero with this either substituting for other fuels, or replacing autogeneration with purchases from the grid. To achieve this, they will need both the proposed future compensation, and the removal/reduction of renewable levies in order to reduce costs to more affordable levels. If decarbonisation using electricity is to be a realistic and affordable option for industrial users and for UK industry to be competitive with imports, the electricity price will need to be in the region of £70/MWh rather than the current range of £110-120/MWh and more in line with European and global competitors, as shown in the chart below.¹ Therefore both the EII compensation schemes and the reduction\removal of policy levies should apply to a wider range of industries, including those which, at present, only purchase more limited quantities of electricity and are not currently “electro-intensive”. This should be considered in both the quantitative assessments of different sectors and businesses.

¹ <https://www.gov.uk/government/statistical-data-sets/international-industrial-energy-prices>



Lower electricity price levels would be more reflective of the current costs of low carbon electricity. For example, the cost of the first phases of renewables production were often well in excess of £100/MWh, whereas the cost of offshore wind has now come down to more like £50/MWh. If consumers continue to be charged on the basis of historic costs there will be little or no incentive to electrify operations and achieve the associated carbon reductions. This historic cost recovery of past policies presents a barrier to wider electrification and the “costs of government policy” might now be better borne by taxpayers rather than future electricity consumers.

If government policy continues to maintain unrepresentative and uncompetitive electricity prices this significantly reduces the scope for successful industrial decarbonisation and is likely to provoke carbon leakage with products being replaced by imports. This is contrary to the government’s stated Industrial Decarbonisation Strategy and the underlying motivation for the UK net zero target, which is to demonstrate to other jurisdictions that decarbonisation can be achieved without significant impact on the economy.

I am copying to Charlie Lewis and David Casey.

We look forward to addressing these issues further with BEIS at forthcoming meetings of our new UK Net Zero Industry Workgroup.

Yours sincerely,

Will Webster

Will Webster
Chair, UK Net Zero Industry Workgroup