

Dr Marilyn Booth
Sustainable Energy Policy Unit
Department of Trade and Industry
Room 1116
1 Victoria Street
London SW1H 0ET

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Dear Dr Booth

Renewables Obligation – Response to Consultation

EIUG represents energy intensive industries for whom a large proportion of operating costs are unavoidably attributable to energy use. These industries purchase around 20% of the electricity sold to end users in the UK market. Some of these businesses and trade sectors have already responded independently to the RO consultation – this response summarises the key concerns common to us all.

We cannot stress too highly the importance to our members of the need to maintain international competitiveness. All of the sectors we represent are active exporters and the success of their businesses depends on competitive energy costs. Although UK electricity costs have begun to converge with other EU markets with the advent of the new electricity trading arrangements (NETA), the expected benefits from the changes have yet to be realised. You should be aware that claims of large price reductions made by some (including Ofgem) following the introduction of NETA have grossly exaggerated the extent of the benefits to large users. Indeed, for our members, such benefits as there have been have been largely wiped out by the impact of the Climate Change Levy (CCL).

Under the proposals outlined in the consultation document, electricity costs to energy intensive industries would increase by around £80-100m in the first instance, rising to around £300-400m by 2010. Price increases of this order will be deeply damaging to our competitiveness, and hit us at a time when manufacturing is already in recession and consequently least able to cope with the shock.

Furthermore, we can see no justification for industry being required to pay twice to finance the government's environmental objectives (a burden avoided by domestic customers, whose consumption is not subject to the CCL).

Finally, we take issue with the timing. Why is it necessary to introduce the RO in 2002, given that the government is currently conducting a wide-ranging review of energy policy, with the specific intention of reconciling environmental objectives with the need for competitive supplies? It would be wiser to delay implementation until the outcome of the review is known.

Please do not hesitate to contact me should you require further information on the impact of these proposals on energy intensive industries, or if you have any other queries about our position on energy taxation.