

EIUG Response to Energy Policy Consultation

EIUG represents the energy intensive industrial sectors in the UK, which operate in international markets, and for whom access to competitive energy supplies is a critical business requirement. The key issues of concern to us are summarised below.

- We believe the primary goal of energy policy should be to achieve secure energy supplies for all UK consumers, at internationally competitive prices.
- We fundamentally disagree with the PIU's proposal for decisions involving trade-offs, which implies that economic and social aims should be regarded as subordinate to environmental objectives. The ability to achieve future environmental improvements is a function of economic strength – damaging the economy is ultimately environmentally counterproductive.
- We believe that the government should avoid unilateral action that renders industrial energy prices uncompetitive, which would damage the UK economy and encourage further migration of energy-intensive industries to parts of the world where the costs of pollution are cheaper. Such developments are not only costly but, in global terms, produce no overall environmental benefit. We welcome the PIU's recognition of the European and international dimension to energy policy.
- We take issue with those who would interfere with the new electricity trading arrangements (NETA) to favour particular forms of otherwise uneconomic generation. It is not the role of NETA to render any particular business or type of generation profitable. Intermittent forms of generation, for example, have a lower economic value, and any properly operating market will reflect this reality. If government chooses to subsidise uneconomic forms of generation to achieve environmental aims, it should do so transparently, without disproportionately burdening industry. It should be noted that current wholesale prices are no lower than those of our principal European competitors, and simply reflect the excess of supply over demand resulting from past over-investment (for which consumers have paid dearly).
- We disagree with the practice of adopting arbitrary generation targets, such as those for renewables and CHP. It is highly likely that the current 10% renewable generation target will not be achieved by 2010, and there is no reason to believe that a 20% renewable target for 2020, as proposed by the PIU, is any more realistic. Consumers are already exposed to a substantial, escalating cost to support uneconomic renewable generation and this should not be compounded in future. The government should note that doubts about the wisdom of this approach are not confined to energy consumers, but have also been expressed by the Royal Academy of Engineering, among others.
- We support the case for continuing investment in energy transportation systems to enhance security of supply. Alleviating network constraints increases flexibility to deal with changing sources of supply and facilitates competition between producers and generators. This is a particular concern in light of the increasing dependence on gas, where capacity constraints in the national transmission system are already a problem. We agree with the argument that there is an asymmetry of risk in network investment, i.e. the risks to consumers from under-investment are disproportionately high.
- We support the PIU's recommendation that the nuclear option remains open. It is not realistic to argue for substantial reductions in carbon intensity without retaining a significant nuclear component to generation. The government should consider the extent to which nuclear generation is being unfairly disadvantaged as a result of the Climate Change Levy.
- We welcome the emphasis in the PIU report on market based measures to deliver reductions in carbon intensity. There may be a developing role for emissions trading, but

this should be on a voluntary basis. A compulsory cap and trade scheme, as proposed by the European Commission, would risk damaging competitiveness of European manufacturing in international markets.

- We recognise the role of liberalised European markets in ensuring adequate security of supply, particularly as the UK becomes increasingly dependent on external natural gas supplies. We urge the government to use its best efforts to ensure the directives on electricity and gas market liberalisation are fully implemented in other European markets at the earliest opportunity.
- We welcome the emphasis in the PIU report on energy efficiency as a least cost measure to reduce carbon intensity. We note that no sector of the economy has done more in recent years than industry to reduce consumption (in contrast, for example, with the domestic sector and transport).
- We agree that institutional change may be required if the UK is to be committed to radically overhauling its existing energy infrastructure. We see some merit in the PIU's suggestion that reforming the planning laws and establishing a Sustainable Energy Policy Unit, or some similar cross-departmental entity, would aid such a transition.

We trust that the concerns raised in this letter will be given due weight when formulating policy, and that this will be reflected in the forthcoming white paper.