

## **Executive Summary**

EIUG represents energy intensive industries that depend on access to secure, internationally competitive energy supplies to remain in business.

We welcome the publication of Ofgem's Project Discovery Consultation Report which appears to endorse our long stated concerns about risks to energy security that will arise as a result of current energy policy.

Ofgem's analysis shows that, absent policy reform, UK energy supplies are set to become significantly less secure and correspondingly more expensive over the decade ahead and beyond. This development will be to the detriment of all consumers, but particularly those in industry who are most exposed to wholesale market price volatility and, in constrained conditions, to the threat of involuntary cuts in energy demand in order to preserve supplies to the domestic sector.

The report highlights a number of key issues on which EIUG has lobbied:

### **Electricity**

- The urgent need to develop a substantial volume of new nuclear capacity
- The unrealistic and expensive nature of government renewable targets
- The need to maintain a balanced generation mix, including nuclear, gas and coal, avoiding excessive reliance on insecure / intermittent renewables such as wind
- The case for greater equality of effort on energy efficiency across all sectors of the economy, including domestic households; industry cannot be relied upon alone to balance inadequate supplies in the event of a shortfall in supply.

### **Gas**

- The risks arising from excessive dependence on gas for electricity generation over the medium term
- The necessity for a substantial increase in gas storage, funded primarily by the domestic sector
- The case for EU market liberalisation and risks to UK import security in its absence
- The need for firm supply contracts for LNG imports

## **Demand Response**

- Unrealistic assumptions about the nature and scale of potential industrial demand response
- The need to encourage greater demand response in the domestic sector

EIUG believes that both Ofgem and DECC have significantly overestimated the scale of potential demand side response from the industrial sector. Evidence available on demand response during winter 2005-06 (when UK gas and electricity prices spiked to record levels, forcing some energy intensive industries to shut down altogether) suggests 1GW might be a realistic estimate.

Energy intensive industries have a long history of engagement in commercial demand side response where specific manufacturing processes render this a practical and economic option and the affect on production, delivery schedules, etc. does not endanger the reputation of the business. The provision of demand side services, however, will never be a core business activity; the prime purpose of such businesses is the manufacture of goods and materials, not energy trading or the selling of energy supplies or capacity back to the market.

We strongly recommend that Ofgem (or DECC) carries out a robust sectoral assessment to confirm the potential scale of industrial demand response and identify the incentives required to ensure maximum use can be procured, if required, on an economically sustainable basis without precipitating permanent demand destruction.

## **General**

Ofgem's analysis confirms that concerns about UK energy security in the medium term (due to retirement of coal and nuclear plant and increased reliance on gas in the absence of adequate storage) and in the long term (from over-reliance on insecure wind energy and unprecedented levels of 'demand response') are far from misplaced.

As demonstrated a few years ago in California, prolonged exposure to uncompetitive energy prices does not simply result in greater levels of industrial demand response – it results in the closure of entire industries and permanent damage to the wider economy.

EIUG remains concerned that the increasing likelihood of disruption to industrial energy supplies, whether 'voluntarily' in response to uncompetitive prices or otherwise, is already damaging the UK's standing as a credible manufacturing location in particular and a place to do business generally. We therefore hope that the implications of this analysis are fully appreciated by DECC and BIS so that steps can be taken to place UK energy policy on a more economically sustainable footing.

*Detailed responses to specific questions posed in the Consultation Report were also submitted*