Electricity Market Reform: allocation of Contracts for Difference

Consultation on Competitive Allocation

Response from the **Energy Intensive Users Group**

General Comments

The Energy Intensive Users Group (EIUG) represents manufacturing sectors including steel, chemicals, paper, mineral products, glass, ceramics and industrial gases that operate in global markets and depend on access to secure, internationally competitive energy supplies to remain in business. Energy Intensive Industries (EIIs) employ 225,000 workers directly, providing indirect employment for over 800,000 workers, and contribute over £15 billion to UK GDP.

EIUG has repeatedly voiced concerns about the mounting cost of renewable subsidies and the need to mitigate the impact of these and other climate policy costs on the international competitiveness UK industrial electricity prices. We have nevertheless given qualified support to the proposal that Contracts for Difference should be the principal means of subsidising low carbon power generation, with the aim of moving towards technological neutrality and market based pricing at the earliest possible stage, in order to deliver best value to consumers.

We have also welcomed the announcement that EIIs will be partially exempted from the full proportionate cost of CFDs (subject to EU state aid approval). However, assuming exemption or equivalent compensation is approved, qualifying EIIs can still expect to remain be exposed to an element of uplift in supply prices (probably at least 20%) arising from CFDs. Furthermore, there is considerable uncertainty about whether *all* electro-intensive trade-exposed processes will be granted the eligibility they deserve, regardless of the manufacturing sector in which they happen to be categorised, potentially leaving such processes exposed to the full increase in electricity prices. Consequently, irrespective of eligibility, all EIIs will remain exposed to further increases in electricity prices as a result of CFDs, and EIUG therefore has a direct interest in ensuring that these contracts, which our members will be subsidising, can be funded at least cost.

It cannot be right that unquestionably mature technologies such as onshore wind, biomass and solar PV continue to receive subsidies well in excess of that required in order to meet DECC's admittedly ambitious targets for their deployment. We believe it should be regarded as a success story for such technologies to move towards competitive pricing at the earliest opportunity. Indeed, if the wider objective is to demonstrate their viability internationally, the sooner this change is effected the better.

In making these changes it will be essential to ensure that equivalent adjustments are also made with respect to their funding under the Renewable Obligation for the period of time in which the RO and CFD funding will operate in tandem for new projects. This is also a matter of direct interest for EIIs since no compensation has yet been proposed to mitigate the impact of the RO on the international competitiveness of industrial electricity prices. As DECC's own published analysis confirms, the RO is responsible for the largest element of the 21% cumulative uplift to date in industrial electricity prices attributable to climate policies, and that the RO element is certain to carry on growing until 2017, with significant legacy costs remaining well into the next decade.

Consultation Questions

1. Do you agree with the Government's proposed list of "established" and "less established" technologies?

We agree that the six identified technologies should be regarded as "established". Indeed, in light of proposed EU guidelines for environmental and energy state aid, we believe the government would be negligent and vulnerable to legal challenge if it failed to make such a distinction.

We appreciate this consultation relates to larger projects fundable under CFDs, but would argue that the same "established" distinction should apply equally to smaller sale onshore wind and PV projects that are below the arbitrary 5MW threshold, and are hence currently eligible for exceptionally generous FIT funding.

2. Do you agree that the "established" list of technologies should be subject to competition from the outset of an allocation process as part of helping to manage the LCF and delivering value for money?

We agree wholeheartedly with this proposal.

We believe equivalent adjustments must also be made to the funding of "established" technologies under the Renewable Obligation, for the period of time in which the RO and CFD funding will operate in tandem for new projects.

We also believe a timetable should be set for "less established" but nevertheless already widely deployed technologies (e.g. offshore wind) to be subject to similar competition as soon as practically possible, ahead of the introduction by 2020 at the latest of technologically neutral CFDs.

EIUG –12th February 2014