

# Energy Intensive Users Group

British Ceramic Confederation  
Chemical Industries Association  
Mineral Products Association  
Major Energy Users Council  
UK Steel

British Glass Manufacturers Confederation  
EnergyQuote JHA  
Confederation of Paper Industries  
Rio Tinto Alcan  
BOC; Air Products

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[www.eiug.org.uk](http://www.eiug.org.uk)



International Federation of Industrial Energy Consumers

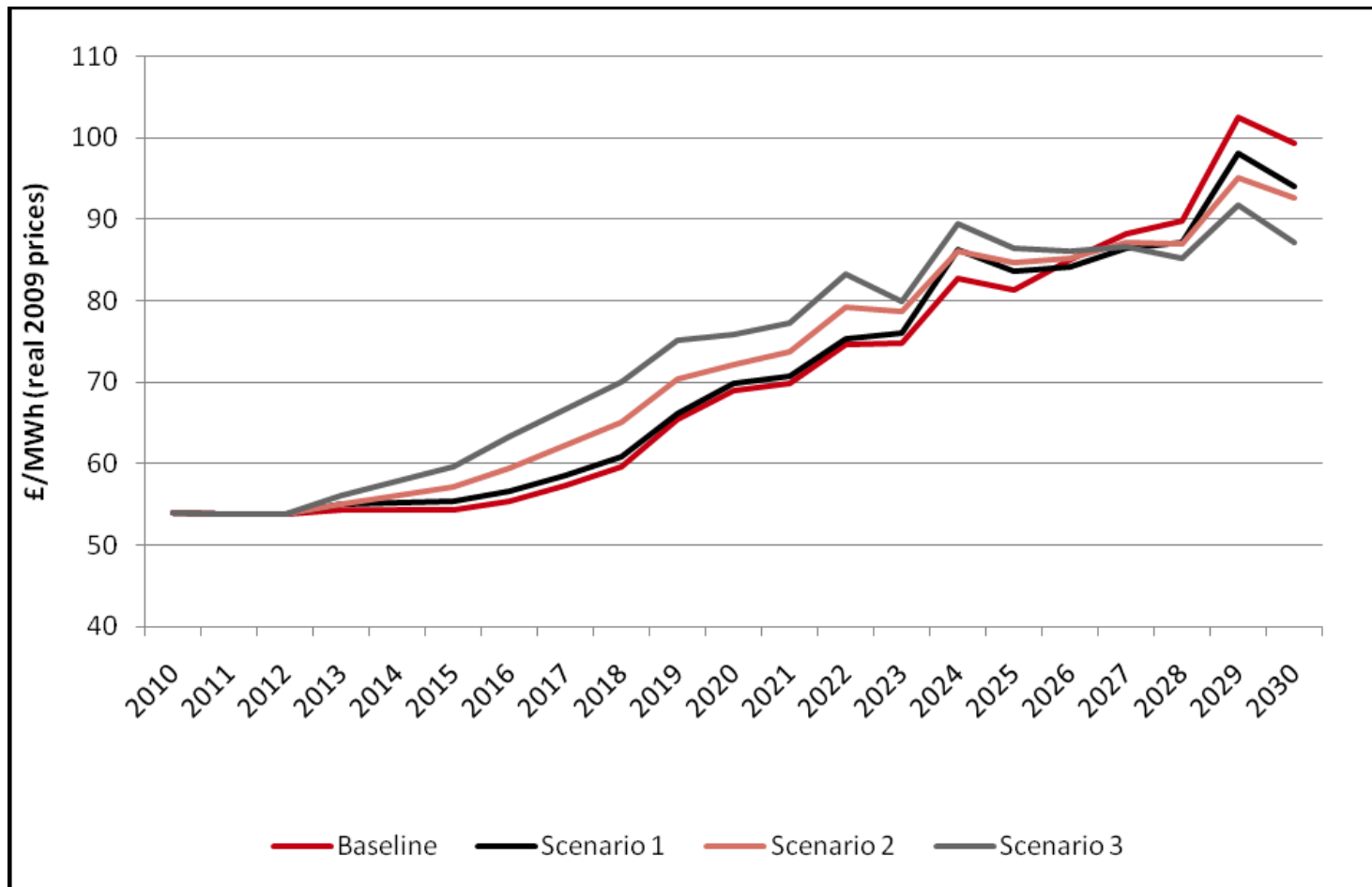
Avenue Louise 200, B 1050 Brussels

[www.ific europe.org](http://www.ific europe.org)

# Treasury Carbon Price Support consultation

- Government response by Budget 2011
- Implementation 1<sup>st</sup> April 2013
- Upstream tax on fossil fuel use for power generation – long term
- Supplemental to the EU Emissions Trading Scheme carbon price
- Aids non-subsidised low carbon technologies especially (i.e. nuclear)
- Costs will be passed through to energy users
- Not formally linked to Climate Change Levy reform
- Impact assessment has not been carried out for industrial users
- No other EU state is imposing similar costs on its energy users

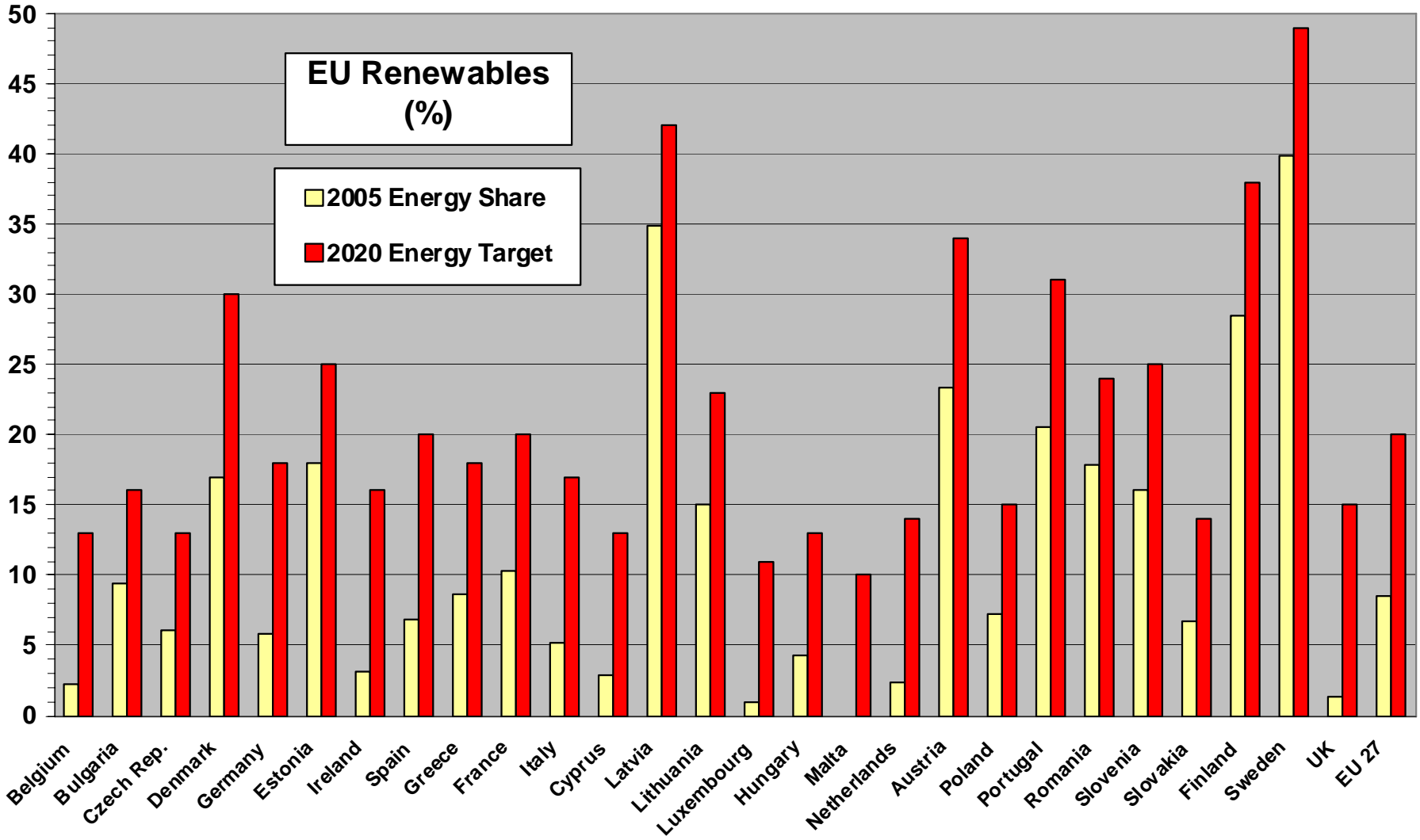
Chart 3: Time weighted baseload electricity prices (£/MWh, real 2009 prices)



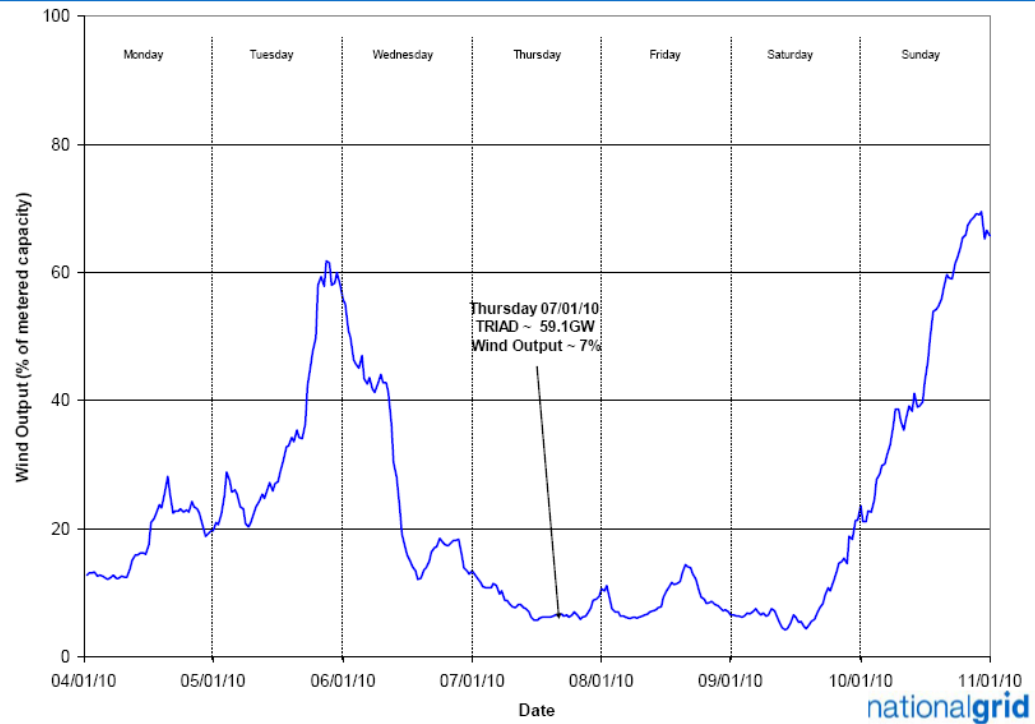
Source: Redpoint Energy, 2010 for HMT

# DECC Energy Market Reform consultation

- White Paper to be published late Spring 2011
- **Feed in Tariffs** – long-term contracts for low-carbon generation based on a ‘contract for difference’ with future power/carbon prices – could apply to nuclear as well as renewables – possibly less costly than the current Renewable Obligation
- **Capacity Payments** – paid for flexible reserve plants or demand reduction to ensure an adequate safety cushion as intermittent / inflexible low-carbon generation increases
- **Energy Performance Standard** – limits carbon emissions for individual plants – will ensure no new coal fired generation is built without demonstrating carbon capture and storage technology
- Costs of **Capacity Payments** and **EPS** will be borne by consumers – cost of **FITs** likely to be passed on to consumers (or taxpayers?)
- Impact assessment has not been carried out for industrial users

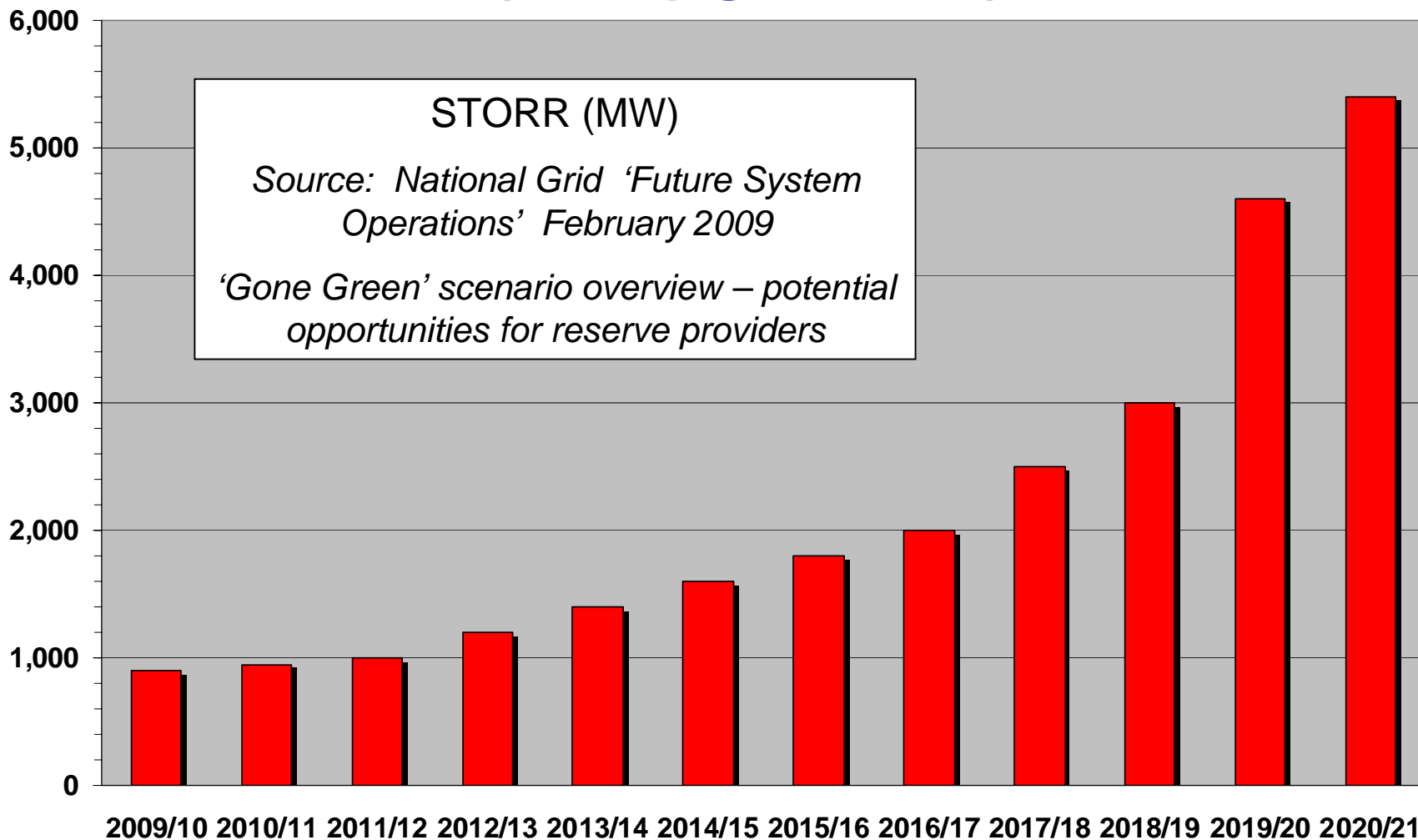


## Wind output over peak demand



**nationalgrid**  
The power of action.

# Managing intermittency – implications for reserve (backup generation)



# Citigroup Global Markets

3 February 2010

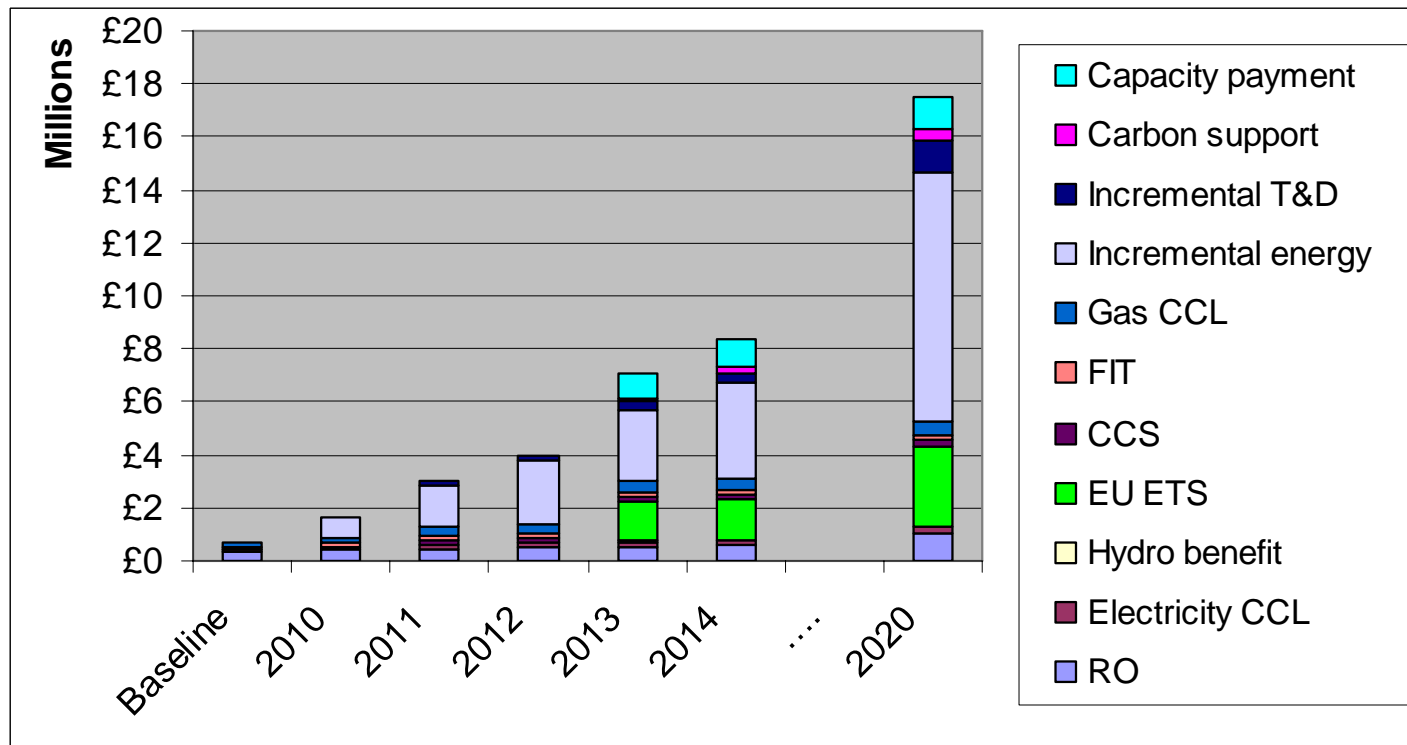
'The extraordinary investment levels identified by Ofgem – **£200bn over 10 years** – is driven by the UK's commitment to the renewable energy target. We fully agree with Ofgem's cost assessment. The UK power and gas utilities are currently investing around £7bn per year, so will need to increase that investment rate to £20bn per annum – **that is 2 London Olympics every year!**'

'without the environmental targets, we calculate that the UK would need to invest only between **£30-40bn** in new power generation assets to replace and renew plant that is coming to the end of its engineering life and secure reliable generation and gas supplies'

'in our view, bills will need to rise by around **100%** if £200bn of new assets are really to be built. But the consumer is guaranteed one thing. The UK seems to be setting out to create an electricity system that is substantially more expensive, less efficient, and less robust than the current system'



**Graph 1: Cumulative impact of climate change policies on an energy intensive user's costs**



Source: Report for EIUG, March 2011

**Waters Wye Associates: The Cumulative Impact of Climate Change**

**Policies on UK Energy Intensive Industries - Update Against New Government Policy**

## Two approaches to energy policy:

- 1) Progressively internalise the cost of carbon, allowing investors to deliver energy and carbon reductions at least cost
- 2) Get government to pick losers, giving the largest subsidies to the least economically efficient technologies, inflating transmission and distribution charges to cross-subsidise their economically inefficient location, socialising the cost of fossil fuelled backup to accommodate unreliable wind power, setting arbitrary unilateral emissions targets decades into the future regardless of their practicality or affordability, whilst complicating the energy market by imposing an increasing multiplicity of overlapping cost-raising interventions (CCL, CCAs, CRC, CPS, EU ETS, RO, FITs, CERT, CESP, etc.)

Which approach do you think is most likely to work?

## Note to policy makers (and academics):

- 1) No developed economy outside Europe is prepared to subject its industry to a fixed cap and trade scheme – no developing economy of any global significance has signalled a willingness to be bound by an absolute national emissions target
- 2) Re-distributing industrial emissions is not the same thing as reducing them
- 3) By all means dream about where we could be in 2050 – but our economy does have to remain competitive throughout the next four decades
- 4) The two biggest contributions to reducing power emissions to date have been accidental – nuclear and CCGTs (both partly a spin off from military R&D)
- 5) Cheap technologies sell themselves – they don't require government mandates