

Energy and Climate Change Policy

Background

- For large energy users, UK electricity prices are uncompetitive and more than 65% above the EU average. Network costs are also higher and have risen four-fold since 2000 to £12.5bn p.a.
- UK gas prices are competitive within the EU but compare less well to locations with indigenous sources such as the US, where the exploitation of shale gas is a 'game-changer'.
- UK energy prices can be volatile when there are uncertainties around security of supplies. Factors include an increase in intermittent renewable power capacities, and an aging generating stock (particularly coal and nuclear). We are also increasingly dependent on imported gas which provides more than 50% of UK supplies.
- Early moves by the UK and EU to address climate change have created a rising cumulative impact on our direct carbon costs and indirect electricity related costs. Compensation and exemptions are available, e.g.: under the Energy Intensive Industry (EII) package but the scheme is narrow in scope and aid is only partial.

Current Status

- Prices in EU carbon markets have risen significantly. There has also been speculative pressure on carbon prices following agreement of tightened provisions for Phase 4 (2021-2030) of the EU Emissions Trading Scheme (EU ETS).
- The government's Clean Growth Strategy provides support for some further investment in renewable power capacity but places an increased emphasis on innovation to reduce the

cost of low carbon technologies such as carbon capture, usage and storage and hydrogen production.

- Dieter Helm's independent energy cost review for BEIS shows electricity prices are too high due to government intervention. BEIS are taking the time to carefully consider Dieter's far reaching proposals so as to avoid unintended consequences.
- Energy regulator Ofgem are consulting on the network price control framework for the 5 years from 2020. There is a risk that, in seeking to recover increased costs from reduced demand, sensitivity around costs for households will see increased recovery from industry including sites with embedded generation who make minimal use of networks.
- Revisions to the EU ETS directive for Phase 4 – negotiations produced a compromise which provides increased protection to energy intensive industries in exchange for increased withdrawal of excess carbon allowances to bolster the carbon price. The focus is now on finalising the implementing regulations.
- UK operators face a crowded and overlapping mix of UK and EU climate change policies.
- The Chemistry Council is working with BEIS to implement the Chemical Sector Decarbonisation and Energy Efficiency Roadmap action plan help sustain the sector during the low carbon transition.

Our Opinions and Actions

- Increased prices in the UK/EU gas, electricity and carbon markets are adding to our already uncompetitive energy related costs.

• We call on the government to do more to minimise our policy related costs:

- This should start with the abolition or reduction of the UK-only Carbon Price Support tax which aimed to top-up the EU carbon price prior to the latest EU ETS reforms.
- Government should also maximise the scope of exemptions under the EII package.
- We support the Clean Growth Strategy's cost-effective approach to decarbonisation. It is critical that low carbon technologies are developed to be cost effective before they are implemented. Any future decarbonisation of power and heat should be both affordable and reliable.
- Post-Brexit the UK should rationalise the UK policy mix and replace with a single route to 100% exemption.

• EU Emissions Trading Scheme

- The government should seek an effective but lower cost EU ETS alternative post-Brexit.
- At the same time it should back EU ETS Phase 4 provisions which minimise production and investment leakage.

• Secure and competitive energy supplies

- The government needs to meet its commitment to diverse energy sources and the infrastructure to accommodate it at the lowest energy costs in the EU.
- We support many of the recommendations of the Cost of Energy Review. UK energy regulation and policy needs urgent reform and simplification. It should focus on technology neutral support mechanisms. There should be fair and appropriate distribution of costs across classes of consumer.



– The UK should urgently pursue the environmentally safe development of UK reserves of unconventional gas. This would improve the business case for investment in UK chemical capacity. We therefore welcome the government's

moves to streamlining and improving the process for shale applications.

– The UK should retain free and fair access to the EU's single energy market post-Brexit.

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