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29th June 2023

**Via email:** energyintensiveindustries@beis.gov.uk

Energy Intensive Industries Team
Department for Business and Trade
1 Victoria Street
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**Response – Energy Intensive Industries: Consultation on the British Industry Supercharger package for strategic Energy Intensive Industries (EIIs)**

Dear Sirs,

UKPIA represents the eight main oil refining and marketing companies operating in the UK. The UKPIA member companies – bp, Essar, Esso Petroleum, PetroIneos, Phillips 66, Prax Refining, Shell and Valero – are together responsible for the sourcing and supply of product meeting over 85% of UK inland demand, accounting for a third of total primary UK energy[1].

As acknowledged in the Consultation Document, electricity prices for UK EIIs are amongst the highest in Europe. The majority of UK industries therefore face higher electricity costs than most countries in the EU-27, leading to competitive distortions and increased risk of carbon leakage.

It is therefore important that the UK continues to consider use of a full set of policies (including electricity pricing policy) to manage the risk of carbon leakage and loss of competitiveness. At the same time, longer term policies are required to support early investment in EII decarbonisation projects, many of which may increase electricity consumption. Many UK policies are currently under review (including free allocation of allowances under the UK ETS, to be followed by further review of the role of free allocation); this creates policy uncertainty which may delay investment decisions.

It is important too that the EII compensation and exemption schemes are not undermined by policy changes elsewhere, for example, the Ofgem Access and Forward-looking Charges Significant Code Review and Targeted Charging Review. Policy certainty is critical for investment decisions and is of particular importance for decarbonisation projects in sectors looking to electrification to drive emissions reductions.

[1] BEIS Digest of UK Energy Statistics (DUKES) 2022.

UKPIA welcomes the opportunity to respond to the consultation on the British Industry Supercharger package for strategic Energy Intensive Industries. Our responses to the questions posed in the consultation document are given in Attachment 1.

We look forward to the further consultation on the proposed EII Network Charging Cost Compensation Scheme.

Yours faithfully,

Dr Andrew Roberts
**Director – Downstream Policy**

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|---|---|---|
| cc: | Michael Duggan | Department for Energy Security and Net Zero |
| | Simon Stoddart | Department for Energy Security and Net Zero |
| | Emilio Marin | Department for Energy Security and Net Zero |

Attachment 1

## UKPIA Response to DBT Consultation on the British Industry Supercharger package for strategic Energy Intensive Industries (EIIs)

**Q1. Do you have views on whether the proposed process will deliver on the intent of the policy?**

Yes, UKPIA believe the proposed process will deliver on the intent of the policy.

The electricity supply arrangements for the six UK refineries are complex, with four of the six refineries generating all of their electricity requirements[2]. The other two are supplied by either an integrated power generation and utilities facility[3] or an adjacent power generation plant[4] over a private network. The six refineries are also connected to the grid for reasons of supply resilience and, depending on the supply arrangements, which can be via Ofgem licensed electricity suppliers where electricity is exported and reimported, may have exposure to Capacity Market policy costs. Therefore, the proposed process should allow UK refineries to claim exemption from the Capacity Market policy costs, taking into account the particular electrical supply arrangements noted above.

**Q2. Do you have views on creating a Capacity Market exemption which uses a similar structure as appropriate to the existing EII exemption scheme?**

In view of the electricity supply arrangements described in the response to Question 1, UKPIA believe it would be entirely appropriate to create a Capacity Market exemption using a similar structure as used in the existing EII exemption scheme.

UKPIA note that eligibility will be determined using the same parameters as the existing EII exemption scheme. If this is revisited or alternative parameters used, eligibility must be determined using robust data. This will call for close engagement with EII sectors to validate data sourced from the Office of National Statistics Annual Business Surveys and Digest of UK Energy Statistics.

**Q3. Are there aspects of the existing EII exemption scheme that you consider are not appropriate for the proposed Capacity Market exemption?**

No. Firstly, the main objective of the Exemption Scheme is to compensate EIIs at risk of carbon leakage and loss of competitiveness from the higher cost of electricity in comparison to EU and other countries. EIIs located in EU countries may also be eligible for compensation under the revised EU State Aid guidelines for climate, environmental protection and energy (the “CEEAG”)[5]. Eligibility criteria for domestic EIIs should be as close as possible to those under the CEEAG to avoid competitive distortion, creating a level playing field with EU based competitors.

**Q4. Do you perceive these proposals to cause any unintended consequences to the running of the Capacity Market?**

No. UKPIA can respond only concerning the risk of unintended consequences to the operation of the Capacity Market with respect to the refining sector. Due to the supply

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[2] Essar Stanlow, Esso Fawley, Prax Lindsey and Valero Pembroke. The Esso Fawley CHP plant exports surplus electricity to the grid.
[3] PetroIneos Grangemouth.
[4] Phillips 66 Humber.
[5] EU Guidelines on State aid for climate, environmental protection and energy 2022, 2022/C 80/01.

arrangements described in the response to Question 1, UKPIA believed there is no risk of unintended consequences caused by exemption of the six refineries.

**Q5. Do you have views on the impact on supplier credit cover requirements and how these will change as a result of the policy?**

UKPIA has no response to this question.