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Via email: energyintensiveindustries@beis.gov.uk

Energy Intensive Industries Team
Department for Business and Trade
1 Victoria Street
London
SW1H 0ET

Dear Sirs,

Fuels Industry UK response to DBT consultation on the proposed Network Charging Compensation Scheme for Energy Intensive Industries (EIIs)

Fuels Industry UK represents the eight main oil refining and marketing companies operating in the UK. The Fuels Industry UK 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

[1] BEIS Digest of UK Energy Statistics (DUKES) 2023.

allowances under the UK ETS, the possible introduction of a carbon border adjustment mechanism and introduction of mandatory product statndards); 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. Again, policy certainty is critical for investment decisions and is of particular importance for decarbonisation projects in sectors looking to electrification to drive emissions reductions.

Fuels Industry UK welcomes the opportunity to respond to the consultation on the proposed Network Charging Compensation Scheme for Energy Intensive Industries. Our responses to the questions posed in the consultation document are given in Attachment 1.

Yours faithfully,

Dr Andrew Roberts
Director – Downstream Policy

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

Fuels Industry UK response to DBT consultation on the proposed Network Charging Compensation Scheme for Energy Intensive Industries (EIIs)

Q1. Do you agree with the proposal to compensate a proportion of all network charging costs? If not, please provide evidence.

Yes, Fuels Industry UK agrees with the proposal to compensate a proportion of all network charging costs.

Q2. Are there other network charging costs hereby not included within TNUoS, DUoS and BSUoS that should be included within the scope of the Network Charging Compensation Scheme? If so, please provide evidence.

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 network charging costs.

The supply contracts are commercially confidential and Fuels Industry UK holds no information on these due to competition law constraints. However, it is important that the proposed Network Charging Compensation Scheme is not undermined by policy changes elsewhere, for example, the [Ofgem Access and Forward-looking Charges Significant Code Review and Targeted Charging Review](), where there have been suggestions that private networks are included in the scope of future network charging schemes. Policy certainty is critical for investment decisions and is of particular importance for decarbonisation projects in sectors looking to electrification to drive emissions reductions.

Q3. Do you agree with the proposal to not compensate any network charging costs associated with use of the gas network? If not, please provide evidence.

No. Firstly, the broader objective of the British Industry Supercharger Schemes is to compensate EIIs at risk of carbon leakage and loss of competitiveness from the higher cost of energy in comparison to EU and other countries. Policy costs attached to electricity and gas supply are equally important for EIIs that are both electricity and gas intensive.

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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.

Q4. Do you agree with the proposal to not compensate any costs associated with use of a private wire network (excluding those costs that can be evidenced as passed through network charging costs)? If not, please provide evidence.

Yes, Fuels Industry UK agrees with the proposal to not compensate any costs associated with use of a private wire network, excluding those that can be evidenced as passed through network charging costs. However, as mentioned in the response to Question 2, it is important that future proposals under the Ofgem Access and Forward-looking Charges Significant Code Review and Targeted Charging Review are included in the scope of the Compensation Scheme.

Q5. Do you agree with the proposal to not compensate any costs associated with new connections to the electricity network? If not, please provide evidence.

Yes, Fuels Industry UK agrees with the proposal to not compensate any costs associated with new connections to the electricity network.

Q6. Do you agree with the proposal to compensate EIIs on a quarterly basis, in arrears, for their network charging costs? If not, what alternatives could UK Government consider?

Yes, Fuels Industry UK agrees with the proposal to compensate EIIs on a quarterly basis, in arrears, for their network charging costs.

Q7. Do you agree with the rationale and scope for the proposed levy? If not, please provide evidence.

Yes, Fuels Industry UK agrees with the rationale and scope for the proposed levy on licensed electricity suppliers.

Q8. Do you agree with the rationale of calculating individual supplier's levy obligations on a volumetric basis? If not, please provide evidence.

Yes, Fuels Industry UK agrees with the rationale for calculation of and individual supplier's levy obligations on a volumetric basis.

Q9. How long will electricity suppliers need to incorporate a new levy into their customer billing systems?

Fuels Industry UK has no response to this question.

Q10. The intention is to collect the levy on a rolling quarterly basis. Can energy suppliers accommodate this? If not, what alternatives could suppliers accommodate?

Fuels Industry UK has no response to this question.

Q11. How long a billing cycle (between notification of quarterly levy obligation and payment) do suppliers require?

Fuels Industry UK has no response to this question.

Q12. Do you agree with our proposal that electricity suppliers should provide quarterly electricity supply data to the scheme administrator to inform quarterly levy obligation calculations?

Yes, this appears to be a pragmatic approach.

Q13. A volumetric calculation of a supplier's levy obligation assumes that suppliers will pass the costs down to their customers on a volumetric basis. Is this assumption correct?

Fuels Industry UK has no response to this question – we cannot speak for electricity suppliers.

Q14. How will suppliers recover the new levy? Will it be through the standing charge or as a standalone levy on bills?

Fuels Industry UK has no response to this question – we cannot speak for electricity suppliers.

Q15. Do you agree with the proposal that at the end of each quarterly billing cycle, the full quarterly levy obligation will fall due? If not, what alternatives are proposed?

Fuels Industry UK has no response to this question – we cannot speak for electricity suppliers.

Q16. Which mechanism would best protect against the risk of default whilst minimising the cost burden on suppliers (and their customers)?

Fuels Industry UK has no response to this question – we cannot speak for electricity suppliers.

Q17. Do you agree with the £0.87 per customer cost estimate for suppliers to pass through the cost of the EII Support Levy? If not, is there more or different evidence you could share?

Fuels Industry UK has no response to this question – we cannot speak for electricity suppliers.

Q18. Do you agree with our approach for estimating familiarisation and administration costs to eligible EIIs? Are there other costs that we have not included in our assessment?

Fuels Industry UK has no response to this question – we have no information available on estimates of familiarisation and administration costs for eligible EIIs.