British Industry Supercharger: Capacity Market consultation and EIIs Government Response

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About Energy UK

Energy UK is the trade association for the energy industry with over 100 members - from established FTSE 100 companies through to new, growing suppliers, generators and service providers across energy, transport, heat and technology. Our members deliver nearly 80% of the UK's power generation and over 95% of the energy supply for 28 million UK homes as well as businesses.

Energy UK high-level views

Energy UK agrees that strategically significant industries delivering economic benefits should be supported so that they are not put at a competitive disadvantage internationally, and to help tackle the risk of carbon leakage. We would note that this cost support could also be important for a number of emerging green industries that will play an important role in meeting Net Zero.

We do, however, have concerns with aspects of the proposals for an exemption to Capacity Market (CM) charges and would urge the Government to carry out an impact analysis before implementation to provide a holistic view of the potential costs and benefits, including the impact this could have on other policy objectives such as security of supply and decarbonisation, avoid unintended consequences, and ensure any trade-offs are proportionate.

We would like to see further analysis consider the following:

- As CM charges are a strong driver of Energy Intensive Industry (EII) behaviour, there is a risk that an exemption from these charges could increase demand from EIIs at peak times. We believe this, combined with the effective removal of TRIAD exemption revenues from winter 2023/24, could increase the peak electricity system demand compared to the current baseline. It is not clear what the scale of this impact would be, and so an impact assessment would provide welcome clarification.
- The consultation draws on theoretical analysis and qualitative evidence that EII are divesting in GB due to high energy costs. The impact assessment should take into account the many push and pull factors that determine where an EIIs locates. In this regard, it will also be important to consider a range of measures to address carbon leakage, including the options explored in the recent HM Treasury and Energy Department consultation '*Addressing carbon leakage risk to support decarbonisation*'.
- A more detailed and quantitative assessment on the costs and benefits of implementing this proposals, taking into account:

    - The potential for additional costs to be incurred by market participants as a result of this being administered through an indirect exemption, such as reporting costs.
    - The potential impact these proposals could have on non-EII businesses, such as large industrial users/demand centres which are not classed as EIIs, as well as the further increase in the cost burden for small end consumers by funding this policy measure via their bills.
    - The possible short-term cashflow impacts on energy suppliers. Without due visibility ahead of implementation, some suppliers may face short-term cashflow impacts due to being unable to pass the cost of the scheme onto non-eligible consumers on fixed price contracts. The short-term cashflow impact would likely be more pronounced in the non-domestic sector where contracts are of higher gross value and are typically 2-3 years in length and agreed up to a year in advance. At the extreme, this may mean suppliers bear the cost of this policy for over 4 years.
    - The impact of these proposals on the bankability of low-carbon hydrogen projects.

We would urge Government to provide more detail on:

- How this exemption will interact with the complex CM charging and billing system.
- Whether the Government intends to commence the scheme in October, in line with the beginning of the CM charging year. (We note that the consultation says the scheme will start after April.)
- Whether the EII consumption volume relates to the CM Peak Periods only, or to a ‘smeared’ volume across a 12-month period. (See high-level quantitative assessment (tables 2 and 3).)
- Whether credit cover will be recalculated.
- Whether an electricity threshold is required. If required, the process of removing some of the bureaucracy and simplification should be considered. (Some members have cited the need to provide 6 months of accounts in relation to new projects/applications as creating unnecessary investment uncertainty).
- Whether an exemption or a low electricity threshold will be considered for businesses with a low-carbon hydrogen agreement during that agreement.

The Government should also consider how other policy or economic levers could work alongside these proposals to help effectively address carbon leakage as part of their wider workstream on this area.