Assured Energy **Outlook**

Government could increase energy bills by exempting industry from cost of renewables

The government has proposed to widen a scheme that exempts some energy-intensive industries (EIIs) from paying the indirect costs related to renewable subsidy schemes. Through a consultation launched 22 June, the changes would allow a greater number of EIIs to avoid fees for Contracts for Difference (CfD) renewables auctions, the Renewables Obligation (RO) for large-scale renewable electricity projects and, if introduced, Feed-in Tariff (FiT), costs which support small-scale renewables.

The government is seeking views on the potential competitive distortions that it believes could have resulted from the current threshold for exemption of 20% electricity intensity. To address any distortions, it has asked whether the threshold should be decreased to 17%, 15% or 10%. Newly eligible businesses would see electricity bills decrease by an estimated average of £2.8mn/ year per business.

However, such a move would create an additional cost burden for those not exempt to cover the funding shortfall. If the 10% threshold is adopted, it was estimated that the average annual bill would increase by £300 for a small business, £12,000 for a medium-sized business and £110,000 for an ineligible energy-intensive industry business. The government is therefore also seeking views on how these additional costs can be minimized for non-eligible consumers as well as how the operation of the exemption schemes can be improved. The consultation closes on 7 September.

Laura Cohen, Chief Executive of the British Ceramic Federation, said the lobby group was “disappointed not to see clearer proposals to benefit UK competitiveness on energy for ceramics and other energy-intensive industries”.

Swansea Bay tidal project rejected

The proposed Swansea Bay Tidal Lagoon renewable energy project was rejected by the government on 25 June. Business and Energy Secretary Greg Clark said in a speech that the £1.3bn project would “not meet the requirements for value for money”, and so it would “not be appropriate to lead the company to believe that public funds can be justified.” He added that electricity was a significant cost for businesses and one which the government was committed to working to “bear down on”.

Clark said that taking all costs together, including financing, operating, and system costs, the complete proposals (six lagoons, generating around 30TWh/ year of electricity) could cost up to £20bn more to produce by 2050 compared to generating the same electricity through a mix of offshore wind and nuclear sources.

Infrastructure commission urges ministers to seize opportunity of low-cost green energy

The National Infrastructure Commission’s first ever National Infrastructure Assessment was published on 10 July, urging policy makers to back renewable energy.

It has long been assumed that a switch to greener sources for the country’s energy needs would mean a hit on people’s pockets – but analysis for the Commission shows this would not necessarily be the case. In fact, making this switch towards low-carbon and renewable sources for both the country’s power and heating, combined with a move towards electric vehicles, would mean the customer of 2050 would pay the same in real terms for their energy as today.

Buildings and transport the next UK decarbonisation challenges, says CCC

A report by independent climate watchdog the Committee on Climate Change (CCC) – released on 28 June – has said that the government must focus on decarbonisation efforts beyond the power sector if it is to meet its climate targets. The report highlighted achievements in decarbonising electricity generation and waste, but said there were tougher challenges ahead to meet the next carbon budgets, particularly in the building and transport sectors.

CCC Chairman Lord Deben criticised both the building industry and car makers for lack of action to address climate change. He said the building industry "should be ashamed of itself" for continuing to produce buildings that were not properly insulated and that the government needed to ensure "cleaner cars come forward more quickly".

Using lessons from the past 10 years, the CCC set out four key messages to Parliament to put CO2 reductions on track: support simple, low-cost options, commit to effective regulation and strict enforcement, end chopping and changing of policy and act now to keep long-term options open.

Non-domestic energy price rises in Q1 2018

On 28 June the government released its energy statistics for Q1 2018, which revealed an increase in electricity and gas prices for commercial consumers.

Average electricity prices for non-domestic use rose 7% between Q1 2017 to Q1 2018 and gas prices rose 4.2%. Energy users in the Very Large band (gas consumption of 277,778-1,111,112MWh/ year) faced the largest increase in gas prices of 12%, compared to a low of a 1% rise for those in the Small band (278-2,777MWh/ year). In terms of electricity, businesses in the Very Small band (electricity consumption of 0-20MWh/ year) were paying 9.4% more than Q1 2017.

Longer term data showed that from 2012-17, average industrial electricity prices have risen by 14% (5% in real terms). Over the same five-year period average industrial gas prices have decreased by 23% (29% in real terms) but increased by 11% (9.1% in real terms) from 2016-17.

The data also showed that renewables contributed a record 30.1% share of electricity generation in Q1 2018.

National Grid hit demand-side target early

A target set by National Grid to obtain 30-50% of grid balancing from demand-side response (DSR) could be met two years early, it said at the Power Responsive conference on 26 June.

DSR can allow businesses to help balance the grid at times of peak demand through flexible use of energy either by altering their power usage or by using on-site generation.

It described DSR as "an important tool to help ensure a secure, sustainable and affordable electricity system", adding that for businesses it was "a smart way to save on total energy costs and reduce their carbon footprint".

National Grid's Balancing and Settlement Code Manager Chris Fox said that more than 50% of balancing services came from demand-side providers in May and if the trend continues it could meet its 2020 target this year.

With its balancing mechanism requirements set to double by 2022, the system operator now aims to open up the balancing mechanism to more sources of flexibility, which could therefore open up further revenue generation and cost saving opportunities for businesses.

In other news

- The UK remains the largest offshore wind market in the world with a pipeline portfolio of 35.2GW, according to a RenewableUK report published in June. However, data from Solar Power Europe also released at the same time shows that the number of new solar power installations in the UK halved for the second consecutive year in 2017.
- The Welsh government has announced its first two carbon budgets. The first will cover 2016-20 with an average 23% emissions reduction on the country's 1990 levels, and the second will cover 2021-25, with an average 33% reduction.

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