British Glass
Manufacturers' Confederation

10th March 2011

Electricity Market reform Consultation
Response from the British Glass Manufacturers' Confederation

Sent on 10/3/11 to EMR-condoc@decc.gsi.gov.uk

Introduction
The British Glass Manufacturers' Confederation (BGMC) represents the UK glass industry. Energy costs are highly significant for this industry and our members are gravely concerned about any initiatives that will lead to price increases in the UK which will reduce their ability to compete in the market. Note: BGMC previously responded to the Treasury's Carbon Floor Price Consultation with the industry's concerns over that part of the on-going proposals.

1. General Issues
Whilst is recognised that decarbonisation of the power sector must be achieved, this should not come at the expense of the UK manufacturing base. The industry cannot agree to the proposals as they currently stand due to the resulting rise in electricity prices which would negatively affect production in the UK.

The glass manufacturing sector will be significantly impacted by the Electricity Market Reform Proposals, but it is not clear that the government has attempted to properly assess this impact. Indeed, the impact appears to be summarily dismissed and government assumes that costs can be passed on to customers. In reality this is not true and energy intensive industries are likely to bear the greatest cost of this measure.

Not only is there no full impact assessment of this particular initiative on energy intensive sectors such as glass, the wider, cumulative burden of costs from the plethora of climate change policies has not been addressed. In the absence of an adequate impact assessment, EIUG (Energy Intensive Users Group) has commissioned an updated report from Waters Wye Associates (WWA) on the impact of the various climate policies (including the CPS and Electricity Market Reform proposals) on energy intensive businesses. That report is appended to the EIUG response to this consultation and should be read in conjunction with the responses of the EIs.

We recommend that government assesses the cumulative impact of Environmental Legislation on Energy Intensive businesses and acts to support industry so that the UK continues to be viable place to invest.

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We currently find ourselves involved in a variety of discussions on future climate change policies including CRC, electricity market reform and CCAs. In addition to the existing legislation, any new measures introduced contribute to an ever more confusing and overlapping policy landscape which is costly and burdensome. We urge government to simplify this in a way that does not harm the UK economy.

Whilst we recognise the need to invest in the UK to ensure security of supply and to decarbonise electricity generation, it must be done cost effectively. Furthermore the measures which are implemented must have long term certainty if investment is to be made.

We support action to increase liquidity and it is important that Ofgem and DECC work closely together to achieve this. Currently there is no proper UK reference price but plenty of EU examples; even in more liberalised markets (e.g. Nordpool).

2. Carbon Price Support (CPS)

The concept of setting a carbon price conflicts with the principles of a cap and trade system; where carbon savings should be made at the lowest cost.

Under the present circumstances we do not consider a carbon price support mechanism to be appropriate at any time or value. It would be particularly damaging to introduce further costs at a time when the country is emerging from recession and looking to rebalance its economy.

For glass manufacturers electricity prices are certain to be higher as generators pass through this CPS cost. This will reduce manufacturing profitability. This has already been demonstrated in the glass sector EUETS competitivity study which recognises that the glass industry is particularly sensitive to overseas competition. It is extremely difficult to pass through costs in the face of foreign competition and in some cases even foreign price support.

The certainty of higher energy prices in the UK (compared to elsewhere) will be a driver for investment outside the UK. Sadly if the manufacture of solar panels, for example, is cheaper elsewhere, then it will not be in the interests of glass companies to invest in their production and the UK will not benefit from the economic, social, technical and academic advantages that UK production would undoubtedly bring.

Ultimately, where international companies see dwindling profitability, they will cease to invest in UK operations. The majority of UK glass manufacturing operations, over two thirds in energy terms, are owned or controlled from outside the UK; we would expect to see further carbon leakage. This is already clearly demonstrated by the almost total but apparently unacknowledged loss of the UK manufacture of domestic, cookware and special glass, whilst the national demand for these products remains stable or increases.

To summarise we see this initiative as presently constructed as leading to a lack of investment in the UK followed by further job losses and the export of manufacturing of glass goods to other countries where conditions are economically more favourable.

Glass products contribute positively to the UK's Climate Change Programme and the Resource Efficiency and Waste Strategy. The loss of the capacity to make or recycle these glass products without recourse to product import and waste export will seriously hinder progress in these initiatives.

The removal of funds from manufacturing will be a further barrier to investment in new technologies.

Any CPS should at the very least be delayed until 2018 and only reconsidered after comprehensive review and consultation.

3. Feed In Tariffs (FITS)

The Contract for Difference (CfD) option is generally preferable to the Premium FIT / Fixed Tariffs since it offers the most certainty in an unpredictable market.

FITs are not favourable since they can't take into account future energy prices and introduce uncertainty on payback.

It is not clear who will be the contracting party: Government or another? We would welcome the possibility of government taking on an element of the risk (as with RHI) rather than placing the entire burden on energy consumers. It is also unclear as to who will receive the benefits.

The energy intensive industries, for example via the Energy Intensive Users Group (EIUG), should be involved in developing the proposal further – they should have a seat at the table in developing CfD FITs.

FITs should not favour particular technologies. All mature low carbon technologies should be treated on an equal, realistic basis.

UK businesses need regulatory simplicity – thus a carbon floor price and an FIT introduces complexity and duplication. A less complex climate change environment is needed to encourage investment in energy efficient manufacturing; as well as low carbon power supplies. If government is intent on encouraging nuclear and renewables, it should consider direct subsidies rather than introducing fiscal incentives which damage energy consumers.

4. Capacity Payments

This initiative seems likely to work against market liberalisation. It is possible that existing mechanisms STOR/demand side response etc., are adequate or could be modified to become so, meaning that a capacity mechanism will not be required.

Incentive for engagement in demand side response could be adequate. Further dialogue with industry is required to explore this aspect as an alternative / addition.

There is sufficient time before the majority of intermittent wind generation is installed for further discussion to occur before government makes its decision.

5. **Emissions Performance Standards (EPS)**

EPS are unnecessary since the EU ETS obviates the need.

There is serious risk of "generation carbon leakage" i.e. out of country electricity generation, and thus growing security of supply implications where the UK becomes dependent on imported power.

If set at too low a level EPS could actually encourage higher-carbon electricity generation to be sited elsewhere in Europe for supply to UK consumers. Not only would this exacerbate the loss of jobs, growth and investment it would increase the risks to security of supply and potentially increase embedded CO_2. The troublesome question then arises of accounting for such embedded CO_2.

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