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Email: elec.marketreforms@decc.gsi.gvo.uk
Electricity Market Reform Project
Department of Energy & Climate Change
4th Floor Area E
3 Whitehall Place
London
SW1A2AW

Dear Sirs,

Electricity Market Reform – DECC Consultation
Response from INEOS Manufacturing Scotland Limited

INEOS Manufacturing Scotland Limited (IMSL) welcomes the chance to respond to the consultation on Electricity Market Reform. IMSL is a producer of refined petroleum products and commodity petrochemicals, including ethylene and propylene and their derivatives. As such, our operating margins are largely set by the global commodities markets in which we source our feedstocks and market our products. Energy costs represent our second largest cost, after feedstocks, and any relatively small change in these costs has a significant impact upon the net margins for the businesses.

IMSL strives to contribute to "greening" of the economy, from promoting efficiency in its operations to participating in the Scottish Government's 2020 Delivery Group. We are supportive of plans to make the transition to a low carbon economy, and recognise that the current market arrangements may not provide the adequate incentives to support investment in diverse low carbon power generation. We are, however, concerned that measures to provide support for investment in generation will increase energy costs and that this will have an equivalent but detrimental impact on investment in energy intensive industries.

Considering the four elements of the proposals laid out in the consultation paper:
- Carbon Price Support
- Feed-in-Tarriffs
- Capacity Payments
- Emissions Performance Standard

Carbon Price Support

In our response to HM Treasury's consultation on Carbon Price Floor we raised concerns which we have heard repeated across many industry sectors. Principally:
- **Impact assessment** – this does not adequately address the impacts on energy intensive businesses, like petrochemicals and refining. Reference is made to the BIS and DECC project to look at the cumulative impact of energy and climate change policies on energy intensive industries

in the UK; however, without this work being completed many of the conclusions drawn in the impact assessment are invalid.

- **EU ETS Carbon Leakage** – the proposals amount to a unilateral policy reversal of the provisions made in the EU ETS Phase III to protect against carbon leakage. Further to the above point, the impact assessment appears inconsistent: it recognises that the proposals go beyond minimum EU requirements, but asserts there is no impact on competition. IMSL operating margins would be directly impacted by the proposed changes, with no technically or commercially feasible options to mitigate to an extent that would maintain its competitiveness in the globally traded commodities. This would significantly hinder IMSL in attracting investment to Grangemouth.
- **Administrative Burden** – the CPF proposals are running con-currently with consultation on Electricity Market Reform and "discussions" on reform to the CRC Energy Efficiency Scheme. The future of Climate Change Agreements is being discussed, and industry is awaiting the National Allocation Plans for Phase III of the EU ETS. All of these are directed at achieving broadly similar goals (moving to a low carbon economy), yet through the multiple schemes overlap is inevitable and management of the schemes and their interactions is becoming a serious administrative burden.
- **Cumulative Burden** – the CPF proposals are potentially another burden on the UK Energy Intensive Industries, furthering the payment of multiple taxes for emission of the same carbon. It appears to be possible to pay for carbon emitted in generating power on the physical emission (EU ETS), on the fuel (CPF) and on the energy produced (CRC) – two out of the three being applicable in the UK only. This does not feel like the simplification promised in the Coalition Agreement to reduce red tape and "...end the so-called 'gold plating' of EU rules, so that British businesses are not disadvantaged relative to their European competitors".
- **Dis-incentive for CHP investment-** previous administrations have recognised the role of fossil-fuel CHP in producing heat and power with high efficiency, promoting good resource utilisation by providing incentives for CHP investment. We have such an arrangement at our site. The proposal as laid out actually ranks good quality CHP as less desirable than importing power from the grid and generating steam from package boilers. This is despite the fact the latter option emits more carbon dioxide.

We are in agreement with the Chemical Industries Association responses with regards to CPF, with the key messages:

-Either CPS ***or*** (CfD) could drive low carbon investment

- CPS will add considerably to the cumulative cost of energy and climate change policies born by industry
- CHP exemptions need to be maintained to preserve and increase the emissions savings from this energy efficient technology
- We need early long term certainty over the future of the Climate Change Agreements and participants' entitlement to relief from downstream CCL

We have discussed our responses to this consultation in further detail with HM Treasury, and shared information to aid understanding of the impact on our business. We are committed to working with Government and our trade associations to create a roadmap to a low carbon economy with a strong UK manufacturing sector.

Feed-in-Tarriffs & Low Carbon Generation

As stated above, we struggle to see the need for both Carbon Price Support and Feed-in-Tariffs. If FiT is set at an appropriate level to support new investment then it is unclear what purpose Carbon Price Support fulfils, other than as a taxation stream for Government.

We feel that the current level of detail contained in the consultation does not allow us to provide a fully informed view of the potential impact on our business. We are concerned that depending on the finance options, FiTs alone could have a significant burden on Energy Intensive Industries; would Government revenue from auctioning EU allowances be used to centrally fund FiTs?

We believe that a strong UK manufacturing sector is critical to support the move to a low carbon economy; independent study has demonstrated that the global chemical sector delivers 2 tonnes of greenhouse gas savings for every tonne emit from the production processes. Decarbonisation in the UK will be best supported if:

- The UK becomes a low carbon economy; especially with respect to electricity generation, and
- The UK manufactures the energy intensive goods it requires within this low carbon economy.

Current consultations have demonstrated the Government's clear commitment to achieving the former; however, to date there has been little evidence of similar engagement in achieving the latter. We urge the Government to engage with the Energy Intensive Industries now to develop strategies to achieve both of these objectives simultaneously.

Capacity Payments

Whilst recognising the need to ensure security of supply for power, which will be a greater challenge with more intermittent renewable supplies (e.g. wind), we believe that existing mechanisms may be capable of fulfilling this need. There does not appear to be immediacy in the need to provide capacity payments, and we feel that the existing market options (e.g. Short Term Operating Reserve) should be fully reviewed before embarking on a significant change to the market.

We would urge the Government to take time to consult more widely on this aspect.

Emissions Performance Standards

We seriously question the need for an Emissions Performance Standard over and above existing mechanisms to regulate CO_2 emissions. We support the promotion of a diverse mix of generation technologies, including clean coal, but feel that market participants are best placed to determine how best to invest to decarbonise and this should not be constrained un-necessarily. Mandating the use of a commercially and technically unproven technology (ref paragraph 86 on page 71) does not seem an appropriate course of action. Furthermore, measuring its specific emissions on the basis of capacity rather than production also seems inconsistent with the intent of decarbonising electricity generation.

Our clear preference would be to allow market forces and current legislation to work. However, if the Government does seek to introduce an Emissions Performance Standard we ask that it is clearly applied to new-build coal-fired generation. The current proposed levels are in line with those from fossil-fuel Combined Heat and Power generation; it is essential that any EPS does not undermine existing investment in CHP or threaten future investment in this relatively highly resource efficient method of generation.

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