Rebecca Evans AS/MS
Y Gweinidog Cyllid a Llywodraeth Leol
Minister for Finance and Local Government

Llywodraeth Cymru
Welsh Government

Our ref: RE/808/22

John Glen MP
Chief Secretary to the Treasury
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

12 December 2022

Dear John,

The review of the Energy Bills Relief Scheme (EBRS) provides the opportunity to ensure the Scheme is targeted to where support is most needed and that sectors have the certainty they need to plan. I enclose the Welsh Government's contribution to the review setting out our priorities, along with views from a range of stakeholders.

It is disappointing the Welsh Government was not engaged in determining the Review's Terms of Reference and I am concerned that the scope has been drawn too narrowly.

The high cost of energy is an acute issue for Wales because energy-intensive industries (e.g. mining, quarrying, and metal manufacturing) make a proportionately larger contribution to the Welsh economy than the UK average.

With no sign that energy prices will fall significantly in the short-term, support for non-domestic energy users must continue beyond March 2023 at a level that helps maintain the competitiveness of UK businesses and allows the public and third sectors to continue to deliver vital services, including for the most vulnerable.

Whilst excluded from the scope of the review, this is essential given that public spending is not increasing at the pace needed to absorb energy costs, alongside other pressures including inflation and pay. The Review must address this challenge and, if required, consideration should be given to the scope to further expand windfall taxes temporarily to ensure support can be maintained.

We recognise the need to target support. This targeting should be done using transparent criteria. Non-domestic users who use off-grid heating oil and Liquified Natural Gas fuel sources should not be excluded from support.

More generally, a 'road map' setting out how support will evolve in the future will help non-domestic users navigate the extremely uncertain and challenging environment.

Canolfan Cyswllt Cyntaf / First Point of Contact Centre:
0300 0604400
Correspondence.Rebecca.Evans@gov.wales
Gohebiaeth.Rebecca.Evans@llyw.cymru

Bae Caerdydd • Cardiff Bay
Caerdydd • Cardiff
CF99 1SN

Changes to the EBRS must be combined with other policies to address the long-term issues of decarbonisation and energy resilience including increased UK Government funding for investment in energy use reduction and improving energy efficiency by non-domestic users. The changes must also address the structurally high energy costs faced by industry in the UK compared with those of other European countries, with the negative consequences for competitiveness and investment decisions.

I am grateful for the constructive engagement between officials, and it would be helpful to discuss how our contribution has informed the outcome of the review at the next meeting of the Finance: Inter Ministerial Standing Committee.

This letter has been copied to Vaughan Gething MS, Minister for the Economy and Julie James MS, Minister for Climate Change.

Yours sincerely,

Rebecca Evans AS/MS
Y Gweinidog Cyllid a Llywodraeth Leol
Minister for Finance and Local Government

WELSH GOVERNMENT COMMENTS ON THE REVIEWS OF THE ENERGY BILL RELIEF SCHEME (EBRS)

Introduction

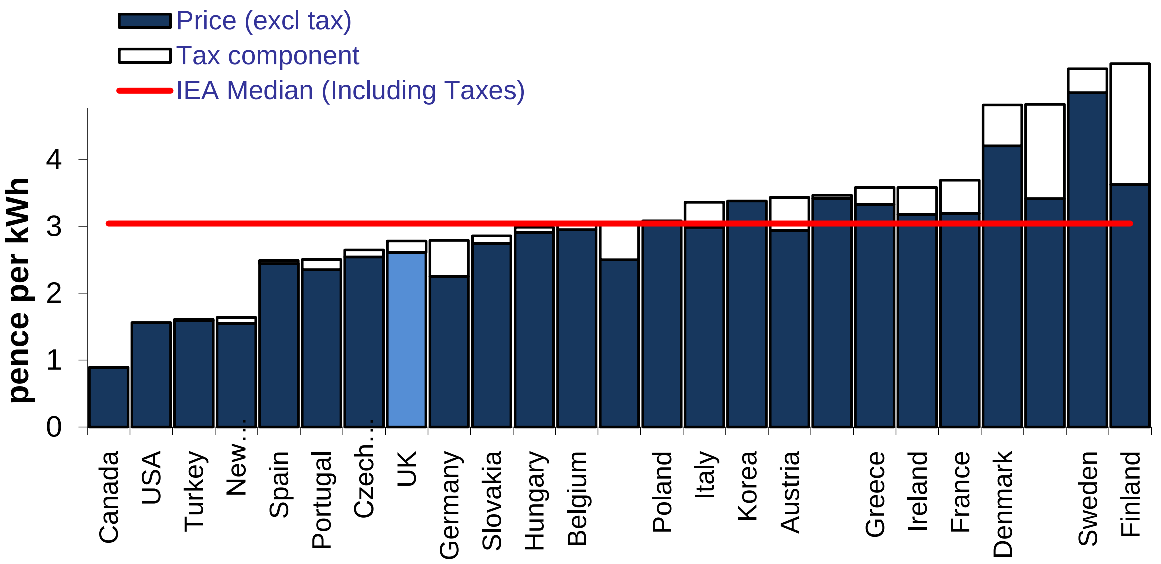
This note summarises feedback from a sample of the Welsh Government's stakeholder on the operation and review of the Energy Bill Relief Scheme (EBRS)

Key issues raised by stakeholders include the scope and duration of the scheme, and comparisons with support in other countries. The issue of competitiveness with companies operating in other countries is particularly important to energy intensive industries.

Background

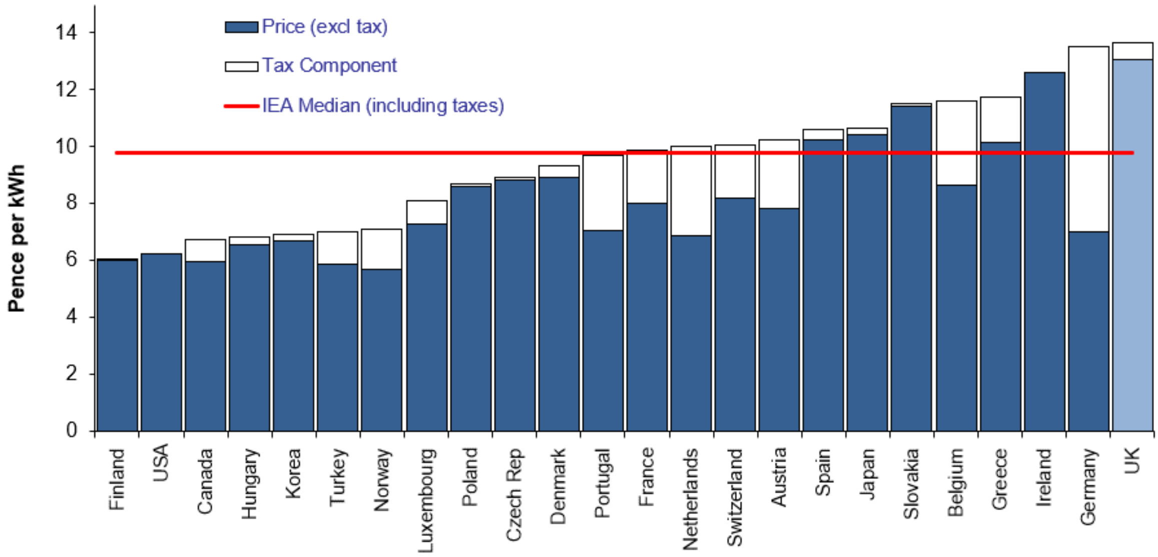
Latest official figures, show whilst industrial gas prices in the UK in 2021 were below the IEA median (Figure 1), industrial electricity prices in the UK were the highest in the IEA in 2021 (Figure 2).

Figure 1: Industrial gas prices in the IEA - 2021



Source: International industrial energy prices, BEIS.

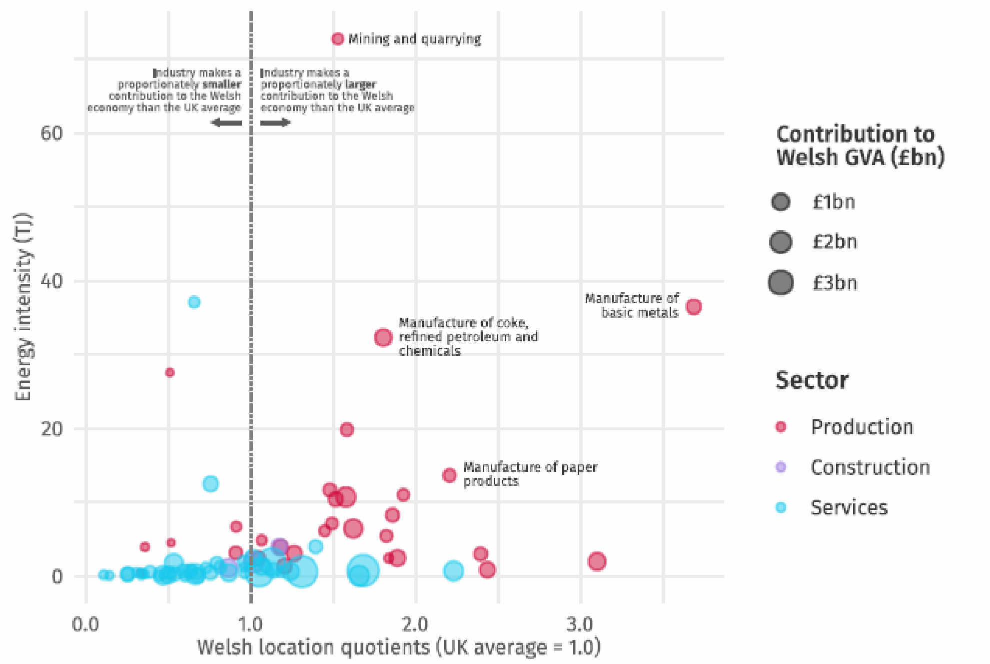
Figure 2: Industrial electricity prices in the IEA - 2021



Source: [International industrial energy prices, BEIS.]

Work by Wales Fiscal Analysis, Cardiff University illustrates the high cost of energy is a particular issue for Wales because energy-intensive industries (e.g., mining, quarrying, and metal manufacturing) make a proportionately larger contribution to the Welsh economy than the UK average.

Figure 3: Estimated energy intensity of Welsh industries and their contribution to the Welsh economy, 2020



Source: WFA analysis of ONS (2022) Energy intensity in the United Kingdom; ONS (2022) Regional gross value added by industry.

Notes: Energy intensity is calculated by dividing reallocated energy consumption by Gross Value Added (GVA). The energy consumption of Welsh industries is estimated by taking a share of the industry's UK-wide energy consumption equivalent to Wales's contribution to UK GVA for that industry. The location quotient is the ratio of each sector's share of GVA in Wales to that sector's share of UK GVA. A location quotient of more than one signifies that the industry makes a proportionately larger contribution to the Welsh economy than the UK average (specialisation in that sector). A location quotient of less than one signifies that the industry makes a proportionately smaller contribution to the Welsh economy than the UK average (under-representation in that sector).

The latest wave of the ONS's [Business Insights and Conditions Survey (BICS)] shows the cost of energy is the biggest concern for businesses in Wales. 30% surveyed businesses not permanently stopped trading said energy prices are their largest concern (Figure 2), the second highest proportion of all the UK countries and regions.

Figure 4

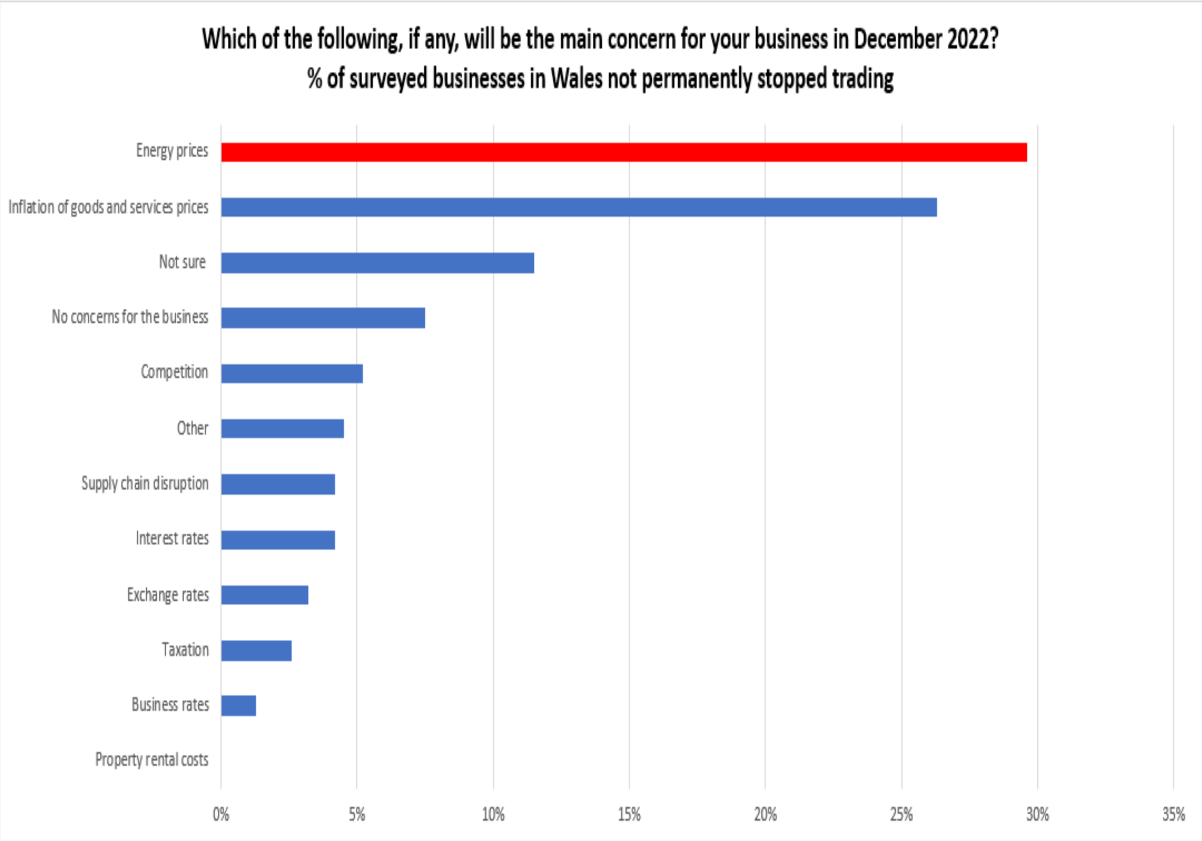
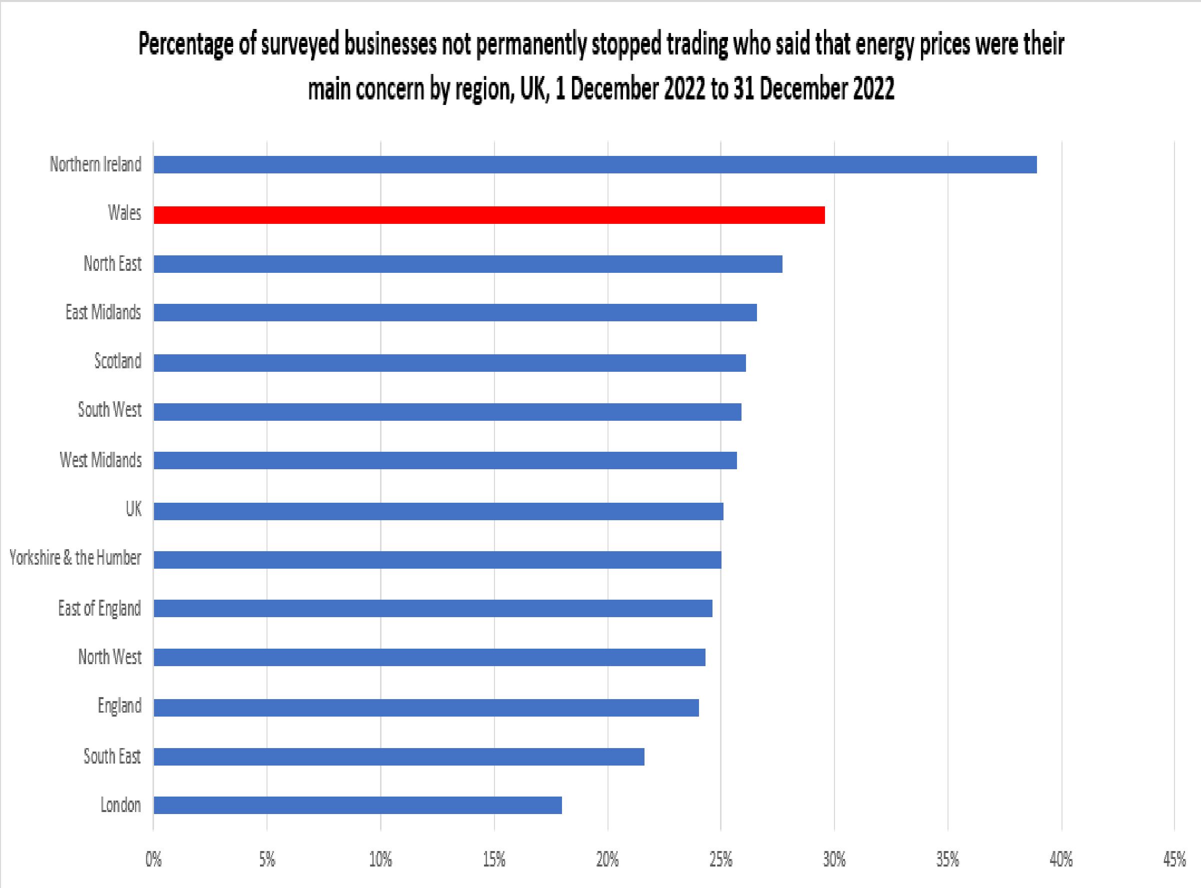


Figure 4



What do stakeholders in Wales want to see from the review?

1. Short- and long-term needs be considered

With no sign that energy prices will fall significantly in the short-term, support for non-domestic energy users must continue beyond March 2023 at a level that helps maintain the competitiveness of UK businesses and allows the public sector and charities to deliver vital services.

The Welsh Government is supporting businesses, especially SMEs and micro-businesses to become more energy efficient and to generate their own energy on-site, where practicable. This is being supported by the Development Bank of Wales (DBW) which hopes to launch a loan scheme to support decarbonisation initiatives early in 2023.

Whilst energy policy is a non-devolved matter, Welsh Ministers have raised with the UK Government, on several occasions, the high energy costs faced by industry in the UK compared with those of other European countries. These have potential negative consequences for competitiveness and investment decisions.

i. Changes to the EBRS must, in conjunction with other policies, support businesses become more energy resilient, where practicable.
ii. The transition from fossil fuels to renewable sources to decarbonise the economy in line with commitments and obligations.

2. A Level playing field for Welsh Business

The current outlook suggests that matters impacting on energy prices, including the Ukraine situation, will not change in the short term and businesses will need ongoing support beyond March 2023, and at a level comparable with that being offered by other governments internationally. For example, in Germany the equivalent support scheme for Energy Intensive Industries places a cap on 70% of industrial electricity prices throughout 2023 and Spain and Portugal have introduced a price cap for gas for 12 months.

3. **Transparent criteria for deciding who is eligible for support.** High Intensive industries will need support whether large or small.

4. With no sign that energy prices will fall significantly in the short-term, support for non-domestic energy users must continue beyond March 2023 at a level that helps maintain the competitiveness of UK businesses and allows the public sector and charities to deliver vital services.

5. **A ‘road map’ setting out how support will evolve in the future,** including how and when support will be withdrawn, to help Non-Domestic users plan.

6. **Greater transparency in how revenues from environmental measures are used to support energy efficiency.** Welsh businesses contribute disproportionately to the revenues generated by the UK ETS. We should have more clarity on how revenues from the ETS and other measures are being used to improve energy efficiency. Lack of transparency makes it hard for us to defend measures to those who view them as punitive taxes.

The scope of the review of the EBRS includes businesses but not public sector bodies:

“Public sector organisations will not be eligible for support through the review. The review will however consider private sector firms which are providers of public services and voluntary sector organisations such as charities.”

Whilst excluded from the scope of the review, we consider it of critical importance to the provision of essential public sector services in Wales that relief on the cost of energy is a priority across the public sector in Wales.

ANNEX 1: Distinct Views

Food and Drink Sector

Food and drink colleagues within Welsh Government have raised concerns about businesses which are not on mains grids but which use LNG as their fuel. One company in this position has calculated the potential impact on it.

"On the assumption that the energy price cap for LNG would be similar to mains gas, then the energy cap would we worth £660k to us in Q4 2022. Our supplier Flo Gas cannot confirm whether this price cap would apply therefore we are in a current position of not knowing whether we will have a £660k hole in our finances just for Q4 2022".

Food and drink colleagues are urging that those businesses using LNG are treated in a similar way to those heating oil.

Many food businesses are concerned about energy price increases and other input inflation which is happening across the board. There has been some collection of anecdotal evidence but no survey work (see points below). What the anecdotal stuff shows is typical of the wider UK scene as reported in the trade press. Until the summer, big retail and wholesale was pushing back hard on producers putting the case for price increases but that has changed now as it is widely accepted the position was unsustainable. Consequently there are price rises happening across the board with food price inflation in double digits and set to stay that way.

A medium size Bakery business has informed us that their electricity costs are going up from £72,996.38 to £277,655.98 for the same quantity of electric a year. As a growing business they predict further cost. Their current contract ends in February, and still haven't found a suitable supplier. They have also needed to change over from oil. They used to be able to use red diesel (gas oil) but the change in legislation now means they have swapped to use kerosene. This has increased fuel costs from 72p a unit to 81p a unit. They currently use around 10,000 litres a month. Off grid fuel use is not covered by the current cap.

Another medium sized Welsh bakery, employing c:100 FTE has gone into administration, citing the dramatic rise in fixed costs.

It is understood that the energy CAP is paid in arrears after costs incurred and businesses concerned about the pressures on cashflow in the interim.

Some businesses are reporting delays in receiving monies from the EBRF. There is also one company that has gone to a four-day week due to rising electricity costs.

They are not reporting a negative impact on their business and are considering adopting permanently.

The Business Energy Cap has certainly made a difference. A large cereal manufacturer stated that without the cap, they would certainly have ceased trading. However, there was still concern regarding the end of the cap and the inability to pass costs on to customers.

Two large employers in particularly rural areas have stressed the difficulty in filling vacancies, especially lower paid roles. Both businesses have laid on transport for employees due to the cost of commuting and the need to recruit from larger centres of population which could be 50+ miles away. The cost to the businesses is considerable (one citing £300k and rising). The length of the journeys (up to 4hrs per day) due to multiple pick-ups and convoluted routes meant that staff retention was difficult. The business separately suggested that support for employee transport would be very welcome with a dedicated scheme to collaborate across North Wales to bring costs and journey times down, cars off the road etc.

One of our great claims regarding food manufacturing in Wales has been it is spatially spread across the whole of Wales. This may well change if labour necessitates relocation nearer to centres of population.

Regards funding support for food businesses, this is an issue across industry and not just the Food sector – Food Division don't have any revenue support schemes or budget to offer such support. The Food Business Accelerator Scheme (capital grant scheme) has been launched. One of the key aims of the scheme is to support innovation and improved efficiency/more energy efficient processes etc. so it will be interesting at this point to see if/how energy/cost of living costs have impacted on businesses and whether it impacts on their ambitions for growth and investment

Broadly speaking the energy use / position of a food business in Wales is going to be the same as pretty much anywhere else in the UK. There may be some off the gas grid, but relatively speaking these are going to be micro businesses so relatively small in the grand scheme of things.

The issues otherwise are going to be these (a) what proportion of their operating costs is energy (and how has that changed); (b) have they fixed their energy costs or not; (c) how energy intensive is their product/s (and that depends on what they are making and also how efficient they are at making it and (d) how successful they have been in winning price rises from customers and supressing price increases from their own suppliers.

Federation of Small Businesses

The FSB has provided the following response:

https://www.fsb.org.uk/resources-page/fsb-report---energy-bill-relief-scheme-review--november-2022.html

The associated press release:

https://www.fsb.org.uk/resources-page/stay-vigilant-with-energy-suppliers-to-ensure-small-firms-are-not-overpaying-government-urged.html

Net Zero Industry Wales

The key messages from Net Zero Industry Wales are:

The relief scheme shouldn't come to an end by March, as the prices will remain high whilst the war in Ukraine and associated Russian economic measures, continue. The current outlook is that this will not change anytime soon and therefore businesses will need ongoing support / relief beyond March 2023.

The replacement scheme needs to be targeted to ensure that it's aligned with other European schemes. This is to prevent an unlevel playing field arising that further increases the economic pressure that businesses are under. In particularly for the industries and other businesses that operate in a European and/or Global competitive market.

Some individual member comments are:

- EBRS should not just stop at the end of March, prices are still massively elevated and pressure will continue to be felt both on our own energy prices and the cost passed on to us from our suppliers.

- We should ensure that whatever European schemes are in place, that cover like for like industries, that similar are provided for UK companies so we are not disadvantaged. We shouldn't be disadvantaged versus more comprehensive European schemes.

- It was felt that the current scheme could have been better applied, and any continuation should have clarity of application, and certainty of discount, built in months ahead of its start.

- All commentary would suggest that the fundamentals behind the current crisis (no Russian supply) will not be alleviated until 2024 at the earliest and 2023 is likely to be more challenging than 2022.

- The current scheme was blanket coverage and designed on the hoof. Any new scheme/extension to the existing scheme should be better targeted/thought out.

It is good that action was taken with the EBRS to help industry with the cost escalation. The introduction of the EBRS certainly seemed to calm the extremes of the electricity market. The EBRS may or may not be continued for energy intensives after March. This does not give any confidence re forward planning. It is likely to be a further few weeks before we hear whether we are considered vulnerable and therefore in need of being included in any extension.

We do not operate in an isolated market. For us, the UK is not ring-fenced. Much of our competition comes from near (EU) countries. Schemes are being introduced which mean lower costs than the EBRS gives (e.g. in Germany) – BEIS are already aware of this and the need to ensure we have competitive energy prices. So, there needs to be flexibility around the scheme to reflect the competitive situation.

UK Steel – Steel Sector Reaction to EBRS

https://www.makeuk.org/news-and-events/news/steel-sector-reaction-to-energy-bill-relief-scheme

- Steel production and processing is an incredibly energy intensive process, with energy making up a substantial proportion of the cost of converting globally priced raw materials into finished steel products for consumers.

- The price of electricity directly impacts competitiveness and which price UK steel producers can sell their steel at on the global market. It also affects the ability to attract investment and, longer-term, to decarbonise.

- The UK steel industry's electricity use is equivalent to 800,000 homes, and gas use is comparable to 400,000 homes.

- Prior to the UKG's intervention [EBRS], UK Steel analysis showed that UK steel producers faced significantly higher electricity prices than their European competitors, with the price disparity skyrocketing since energy prices increased.

- The price cap is at 4-5 x the historical average, but the critical issue for the steel industry is competitive electricity and gas prices, in line with European and global competitors.

UK Steel's Electricity Price Comparison

As part of their five-steel-sector-priotities-for-a-new-government---september-2022.pdf UK Steel see that the number one priority is competitive electricity prices. The report provides the following statistical comparison to EU competitors.

Competitive electricity prices

- UK steel producers have long suffered the competitive disadvantage of having the highest industrial electricity prices in Europe, and the current energy price crisis has hugely exacerbated this situation with steel companies this year estimated to pay 30% and 70% more than their German and French counterparts respectively.

- This disparity is not sustainable, resulting in an estimated £300 million additional production cost for UK producers this year.

- It has demonstrably deterred investment from current and potential new UK steel plants and is now acting as a major barrier to decarbonisation as all low-carbon steel technologies are extremely electricity intensive.

- More urgently, UK power prices in recent months have risen to such an extent that UK steel producers are increasingly unable to produce steel at below market prices.

- The steel sector welcomes the initial steps the new government has taken to reduce business energy costs, but it is critical it now works with industry on what steps will be taken beyond this winter to ensure competitive prices for steelmakers as well as plans for fundamental reform of the wholesale market to deliver permanently lower prices.

Voluntary Organisations and Charities Providing Public Services

A charitable leisure trust which provides leisure and cultural services for 3 Welsh local authorities and 22 outside Wales has expressed its concerns about support to assist with energy costs. The trust operates more than 60 swimming pools and has temporarily closed some due to the costs of heating.

The trust has seen its energy bill increase from £8m to £20m, with energy being a large proportion of the costs for swimming pools. In Wales alone there has been an extra £3.5m/year of cost.

The trust has proposed the following to help the sector:

(1) Public Sector leisure must be identified as a vulnerable sector in the upcoming January review to put in place support beyond the 31st March 2023

(2) That support should be bespoke to the sector and be more "generous" than the current cap position which still results in unsustainable losses

(3) Urgent government backed liquidity loans, as were put in place during Covid, are needed to secure the viability of the sector and prevent catastrophic failure of organisations with consequent loss of service and jobs (we employ 5000 people)

(4) More direct support for energy management schemes would also assist in the medium term

(5) Re-instatement of a sector targeted Economic Resilience Fund or equivalent for Businesses across Wales to support them through these unprecedented times.