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Ofgem reforms set to further increase steel producers' electricity costs

- **The independent gas and electricity regulator, Ofgem, has published its final decision on its review of network charges (Targeted Charging Review)**
- **Despite repeated warnings from UK Steel, Ofgem's reform will significantly increase electricity costs for steelmakers. Initial analysis suggests electricity price increases up to 10% for many steel producers, resulting from more than doubling of network costs**
- **Research conducted this year show UK steel producers already pay 60% [£47m] more than their German and 80% [£55m] more than their French counterparts**
- **Ofgem's proposal will further worsen the competitive conditions for steel making in the UK**
- **Steel is highly electro-intensive and trade-exposed sector, with electricity representing the largest single cost for many producers after raw materials. The steel sector faces annual electricity costs of £125,000,000.**
- **The UK's disproportionately high power prices continue to reduce available capital and deter inward investment, undermining the sector's ability to be competitive today and through to the long term. This today erodes the sector's future in the UK.**
- **Higher electricity costs for the steel sector will lead to higher steel prices and thus ultimately more imports from China and Russia. This will, in turn, increase GHG emissions and prevent the UK from truly reducing its emissions to Net Zero, if it cannot control how its steel is produced.**

Gareth Stace, UK Steel Director General, said:
"We have time after time alerted Ofgem of the direct impact of their proposed reforms on the steel sector, but unbelievably our warnings have fallen on deaf ears. The independent regulator has completely failed to take industrial concerns into account and is set to worsen the business environment for UK steelmaking and energy intensive industries.

"The UK steel sector already faces network costs up to eight times as high as their competitors in France and Germany. Ofgem should have been working to lower network costs for Energy Intensive Industries not than increase them. We are looking for policies that increase investment in British industry, not discourage it.

"It is evident that the UK steel sector is facing significant challenges at present, and it is therefore extremely disheartening that Ofgem now adds to this with their network cost increases. This is the wrong decision and runs completely counter to any ambition for a coherent industrial strategy in the UK.

"Decisions of such magnitude should not be left entirely in the hands of a regulator with no ability for Government to intervene to correct counter-intuitive proposals such as this. The next Government must get to grips with this immediately."

ENDS.

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Notes:
About UK Steel: UK Steel is the trade association for the UK steel industry. It represents all the country's steelmakers and a large number of downstream steel processors.

'The Energy Price Gap: A New Power Deal for UK Steel', UK Steel, October 2019

- This report showed that UK steel producers pay 80% more for electricity as their competitors in France and 62% more than in Germany
- Despite wholesale prices dropping over the past year, there remains a persistent gap between UK industrial power prices and those elsewhere, with German and French steelmakers paying £19/MWh and £22/MWh less respectively than those in the UK
- The difference between German and UK electricity costs is the equivalent of £47 million a year to the sector.
- Consistently higher UK electricity prices deter investment, ultimately endangering UK steel production and jobs
- As part of its Sector Deal discussions with Government, the steel industry has committed to reinvesting any savings as a result of Government action on the electricity disparity back into UK operations
- Achieving parity with Germany could, therefore, deliver a £47m investment in the sector, a massive 24% increase in capital investment

The UK Steel Sector in Numbers:

- Produces 8 million tonnes of steel a year, around 80% of the UK's annual requirement
- Employs 32,000 people directly in the UK and supports a further 52,300 in supplies chains and local communities
- The average steel sector salary is £36,000, 28% higher than the UK national average and 46% higher than the regional average in Wales, and Yorkshire & Humberside where its jobs are concentrated
- Makes a £1.6 billion direct contribution to UK GDP and supports a further £3.9 billion
- Makes a £3.2 billion direct contribution to the UK's balance of trade
- 96% of all steel used in the UK is recovered and recycled to be used again and again