

Communication:

Impacts of carbon policies on sector competitiveness

April 2017

Introduction

Energy prices in the UK are made up of commodity and non commodity costs. Non commodity costs, or third party charges, include network charges and a variety of taxes and levies. Network charges cover transmission system costs, distribution network costs, balancing services and assistance for areas with high distribution costs¹. Taxes and levies on electricity (with the exception of the CRC² which contributes to general tax revenues) are paid by consumers to fund our renewables programme³ and include the Renewables Obligation (RO), Feed in Tariffs (FiT), the Capacity Market (CM), Contracts for Difference (CFD) and the Climate Change Levy (CCL). These are collected in six different ways, by five different authorities⁴ and are billed inconsistently - depending on supplier and contractual arrangements.

Non commodity charges currently account for around 50% of the price of electricity (see Fig 1) and the proportion of these charges is set to rise by around 30% between 2017 and 2019 as the impacts of the CfD and CM start to be felt. The UK Council of Data Centre Operators is very concerned by the growing electricity price gap between the UK and competing markets and makes the following observations:

- High energy costs are severely challenging the competitiveness of commercial data centre operators in the UK and are presenting obstacles to inward investment and sector expansion.
- Other countries, within and outside Europe, are aggressively marketing their credentials as locations of choice for data centre operators in preference to the UK. Energy cost is a primary bargaining chip.
- The UK data centre sector is one of our national success stories and considered to be the fastest growing sector in the developed world, driven by increased digitisation and demand for data.
- The sector underpins the digital economy, smart grid, superfast broadband and drives infrastructure improvements and high tech clustering. It is an agent of growth⁵.
- Data is the most mobile commodity on earth and as a result data centre services are vulnerable to offshoring, which in turn may lead to carbon leakage.
- Whilst the sector does benefit from welcome relief on CRC and CCL through a Climate Change Agreement, this only addresses a fraction of the burden (see Figure 1 overleaf).
- The sector is not officially classified as electro intensive, despite being more energy intensive than some qualifying industries. As a result the sector does not receive compensation for the cost of renewables and moreover, has to share the additional costs imposed on other industrial energy users who shoulder the burden of those compensation measures.
- Current compensation measures are limited to certain manufacturing industries and the focus seems to be on preventing decline rather than protecting growth. No service sectors currently qualify for relief.
- Limited routes to mitigate some of these costs through triad avoidance or demand side response are unavailable to data centre operators due to restrictions imposed by compliance requirements.

The Council therefore seeks an urgent review of the adequacy of current compensation measures for energy intensive sectors.

¹ TNUoS: Transmission Network Use of System; DNUoS- Distribution Network Use of System, BSUoS – Balancing Service Use of System; AHHEDC – Assistance for Areas with High Electricity Distribution Costs.

² Carbon Reduction Commitment Energy Efficiency Scheme, due to end in April 2019

³ , which has already delivered a substantial improvement on the carbon intensity of grid power on which we are making good progress: the carbon intensity of a kWh has dropped from over 700g to 420 g over the last ten years

⁴ CRC is BEIS / Environment Agency, RO is via the market or Ofgem, FiTs is Ofgem, CFDS are Low Carbon Contracts Company, CM is Electricity Settlements Company and CCL is HMRC

⁵ commercial provider Equinix has just reported its 56th quarter of continuous growth.

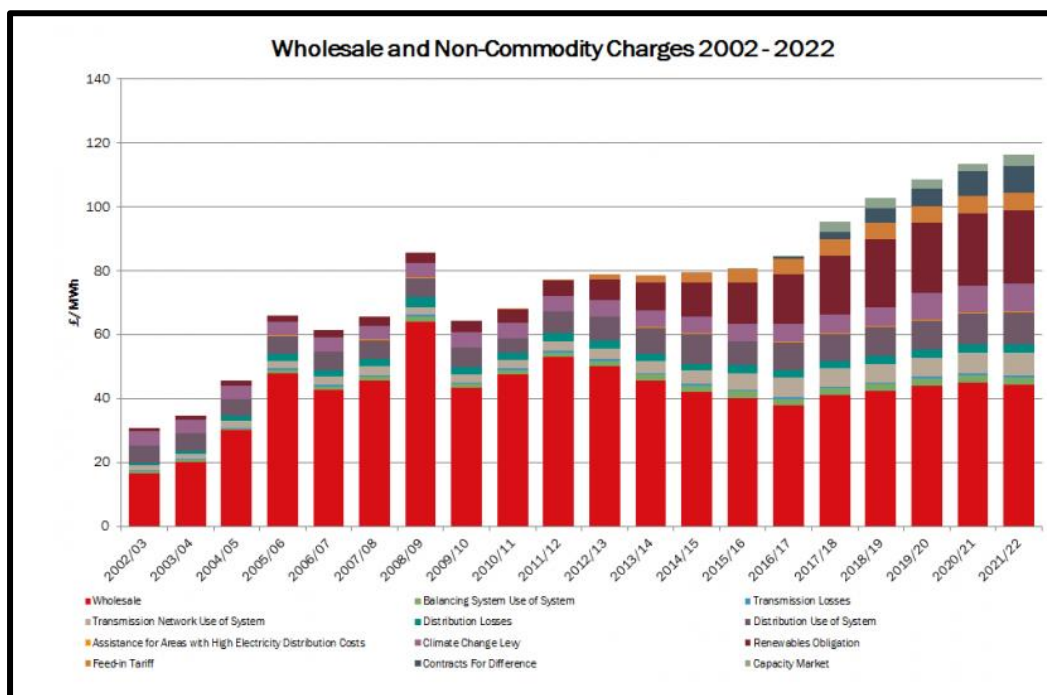


Figure 1.
Source:
Utilitywise,
November 2016

<https://www.utilitywise.com/2016/11/02/non-commodity-costs/>

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About the UK Council of Data Centre Operators

techUK's Data Centre Council comprises twenty individual members who represent the full spectrum of business interests and business models across the data centre sector. Members include wholesale and retail colocation providers, cloud and hosting operators and enterprise providers and range from multinationals to SMEs. Some members specialise in the provision of professional services to data centres such as lawyers, surveyors, investors and advisors, some manufacture the IT and communications hardware that occupy these facilities and others represent the data centre supply chain. The Council is a decision-making body providing strategic direction for all techUK's activity relating to data centres. Formal Terms of Reference provide governance for the group.

The Council was established in 2009. Its primary objective was to provide a representative voice for the sector in policy matters, particularly those relating to energy and carbon taxation. Over the last five years the Council has been responsible for delivering a number of significant outcomes for the UK data centre sector. These include negotiating a Climate Change Agreement for Data Centres, limiting the impact of the Carbon Reduction Commitment, building a qualification framework to recognise professionalism in the sector, demonstrating the economic value of the sector to Treasury and BIS and demystifying data centres to policy makers across government. The UK has the largest data centre market in Europe by a significant margin and as a result the Council also takes a close interest in EU policy developments impacting the sector.

Comprising senior decision makers, the Council is the single most influential body representing data centres in Europe. The Council is chaired by Andrew Jay, Executive Director at CBRE and the vice chairman is Rob Coupland, MD of Digital Realty EMEA. A list of members, terms of reference, achievements and other Council communications can be found here: <https://www.techuk.org/focus/programmes/data-centres/groups/data-centres-council>

About techUK

techUK is the trade association representing the digital technology sector in the UK. techUK represents the companies and technologies that are defining today the world that we will live in tomorrow. The tech industry is creating jobs and growth across the UK. In 2015 the internet economy contributed 10% of the UK's GDP. 900 companies are members of techUK. Collectively they employ more than 800,000 people, about half of all tech sector jobs in the UK. These companies range from leading FTSE 100 companies to new innovative start-ups. The majority of our members are small and medium sized businesses. www.techuk.org