British Glass

Targeted Charging Review (TCR)

British Glass response – 8 February 2019

British Glass is the representative body for the UK glass manufacturing industry. Glass manufacturers are large users of electricity and this review will affect distribution and transmission charging. Some of our members are able to load manage by reducing their electricity usage at peak times and some are not.

General comments

Our UK members already pay the higher electricity costs than the majority of Europe and any change to the charging of costs must be sensitive to the international competitiveness of our members.

We have found it very difficult to quantify the impact of the proposed changes for our members' sites, despite frequent and ongoing engagement with the Ofgem and other industry sectors. There are still some unanswered queries and some doubts about the figures in the impact assessment, particularly the assessments surrounding the preferred option of fixed charges.

The fact of the matter is that most companies still do not know how the proposed changes will affect them and we therefore cannot make any definite response here. We urge Ofgem to halt this process, review the assumptions made in the impact assessment and consult again on these changes.

The proposals would remove the TRIAD incentive to load manage around peak times. Whilst Ofgem have promised to look at re-introducing an incentive in the 'network access and forward looking reforms', there are no proposals and no impact assessment yet available for us to be able to use to complete our assessment of the two reviews, the outcomes of which, Ofgem have now indicated would be introduced alongside each other. By moving forward on one element whilst the other is not yet started, there is a real likelihood that load management will be delayed or lost. This is in direct contradiction with the policy intent to encourage more demand side response and or onsite generation.

We fully support the Energy Intensive User Group comments on these issues.

Answer to specific questions

1. Do you agree that residual charges should be levied on final demand only?

Levying on end consumers only would appear to make sense in terms of simplification and potentially increases clarity given suppliers will pass on any costs they face to consumers anyway. However, if it is complicated to entirely separate out demand and supply on the EHV network, it might be simpler to levy the charge on some elements of supply too in that context.

2. Do you agree with how we have assessed the impacts of the changes we have considered against the principles? If you disagree with our assessment, please provide evidence for your reasoning.

The quantitative assessments did not take into account the following site considerations such as; multiple MPANs, different connection types on the same site and EDCM fixed charge including generation. We do not have confidence in the financial assessments due to the above assumptions that could be at worse lead to fivefold increase in assumed costs.

The methodology of the calculations is complicated and this was not set out clearly to allow individual sectors to calculate their financial impact.

Glass manufacturers (EII) would prefer an interpretation of "fair" that gives some consideration of their requirement to access competitive electricity prices due to the international competitiveness.

3. For each user, residual charges are currently based on the costs of the voltage level of the network to which a user is connected and the higher voltage levels of the network, but not from lower voltage levels below the user's connection. At this stage, we are not proposing changes to this aspect of the current arrangements. Are there other approaches that would better meet our TCR principles reducing harmful distortions, fairness and proportionality and practical considerations?

We would question whether this is really the case when EDCM consumers are all treated the same way regardless of the voltage of their connection and there is uncertainty over the boundary between EDCM and CDCM charges, meaning the former could in fact be subsidising the latter.

However, at the most basic level, it would seem to make sense that distribution-connected users contribute towards transmission costs as they are not isolated from the transmission grid and that transmission-connected users are not expected to pay for the distribution grid.

4. As explained in paragraphs 4.41, 4.43, 4.46, 4.49, 4.80, we think we should prioritise equality within charging segments and equity across all segments. Do you agree that it is fair for all users in the same segment to pay the same charge, and the manner in which we have set the segments? If not, do you know of another approach with available data which would address this issue? Please provide evidence to support your answer.

No. We have undertaken a detailed assessment of glass manufacturing sites and have identified that smaller EDCM sites under the fixed charge option would be disproportionally financially disadvantaged. This can occur, fore example, where a site has undergone de-industrialisation so a previously large site that was EDCM connected is now much smaller.

We suggest that Ofgem consider further disaggregation of the EDCM user costs based on size or consider another solution, since the current fixed charged proposal would not deliver the principles of the review for these sites. We would be happy to discuss this further with Ofgem.

5. Do you agree that similar customers with and without on-site generation should pay the same residual charges? Should both types of users face the same residual charge for their Line Loss Factor Class (LLFC)?

Users who can manage their load should be incentivised to do so and it does not matter to the user where the incentive is levied. The current review removes the current incentive for users to manage load without replacing it with anything new. It is vital that the output from the asset management review be brought alongside and output from this review and those measures implemented together.

The analysis has largely assumed that demand side response from industry is as a result of additional onsite generation, however the vast majority of load management from glass sector is as a result of turning off or turning down plant. We urge Ofgem to reconsider their analysis before making any further decisions.

6. Do you know of any reasons why the expected consumer benefits from our leading options might not materialise?

The fixed charges are based on the number of MPANs onsite, assuming there would only be one. This is not the case in the glass sector where there may be several MPANs on site and the majority of sites have more than one. It is difficult to see how this could have been taken into account in the financial assessment.

7. Do you agree that our leading options will be more practical to implement than other options? Yes, although the distortion for smaller EDCM and multiple MPANs sites needs to be addressed to ensure fairness.

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8. Do you agree with the approaches set out for banding (either LLFC or deeming for agreed capacity)? If not please provide evidence as why different approaches to banding would better facilitate the TCR principles.

Again, it is difficult for trade associations to comment on this area as they will have a mixture of winners and losers in their membership, but if boundary effects within some user categories are very considerable there might be a case for further divisions. The use of LLFCs could potentially lock in a system that over time becomes unfit for its original purpose or cause upset if LLFCs need to be changed for reasons unrelated to TCR.

In the case of deemed capacity, there should be potential for reassessment of the option if further investigation proves that current assumptions about domestic consumers are wrong, potentially impacting the system as a whole.

9. Do you agree that LLFCs are a sensible way to segment residual charges? If not, are there other existing classifications that should be considered in more detail?

10. Do you agree with the conclusions we have drawn from our assessment of the following?
a) distributional modelling
b) the distributional impacts of the options
c) our wider system modelling
d) how we have interpreted the wider system modelling?
Please be specific which assessment you agree/disagree with.

From what we have seen of members' initial calculations, the assessment of impact on sample consumers may not be representative of many within the industrial segment, with many sizeable inequalities being seen close to voltage level boundaries. For some assets, the potential increase puts their viability at risk.

It is unclear whether the modelling accounts for the potential disconnection of these assets. We are also concerned at the degree of uncertainty still inherent in the figures and, as noted previously, at the lack of consideration of DSR in the wider system modelling or – potentially more significantly – the impacts of the AFLC review. This must be addressed through further impact assessment and consultation.

11. ***Do you agree with our proposed approach to the reform of the remaining non-locational Embedded Benefits?***

12. ***Do you agree with our proposal not to address any other remaining Embedded Benefits at this stage? Which of the embedded benefits do you think should be removed as outlined in xx? Please state your reasoning and provide evidence to support your answer.***

13. ***Are there any reasons we have not included that mean that the remaining Embedded Benefits should be maintained?***

14. ***Do you agree with our proposed approach to transitional arrangements for reforms to: a) transmission and distribution residual charges b) non-locational Embedded Benefits? Please provide evidence to indicate why different arrangements would be more appropriate.***

We believe the changes should be implemented at the same time as the outcome of the AFLC review, which we note may still be delayed. The two reforms are interlinked and introducing one before the other and in a phased manner will add to the complexity. This would also allow more time to consult again on the TCR and for the Capacity Market to be reinstated. We are not convinced of the case for rushing implementation of the TCR on the basis of consumer cost savings when elsewhere in the consultation document Ofgem says that these are very uncertain and it is better to focus on system cost savings.

15. ***Do you agree with our minded to decision set out? If not please state your reasoning and provide evidence to support your answer.***

16. ***For our preferred option, do you think there are practical consideration or difficulties that we have not taken account of? Please provide evidence to support your answer.***

We note the uncertainties that have arisen around MPANs, connection points, etc. and would urge Ofgem to find a way to ensure that this does not create inequality between similar sites for purely historical reasons. As discussed above, there are also a number of issues being considered under the AFLC review that might need to be reflected here, plus the uncertainties around the Capacity Market.