



4<sup>th</sup> February 2019

Dear Sir,

**Response to Ofgem's targeted charging review: minded to decision consultation**

Please find attached the above response on behalf of Breedon Cement Limited (BCL), a part of the Breedon group of companies. The Breedon group is a leading construction materials group in the UK and Ireland, consisting of two cement plants and around 80 quarries, 40 asphalt plants, 170 ready-mixed concrete and mortar plants, nine concrete and clay products plants, four contract surfacing businesses, six import/export terminals and two slate production facilities. The Group employs nearly 3,000 people and has nearly 900 million tonnes of mineral reserves and resources.

Yours faithfully,

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## **Breedon Cement Limited General Position**

Whilst BCL acknowledges that it is not currently possible to provide sufficiently detailed information in the consultation and supporting documents to enable an accurate calculation of the impact on our sites we find it regrettable that this is the case. The uncertainty around the ultimate impacts of these changes to the charging methodology are compounded by the recently opened Significant Code Review into Access and Forward Looking Charges (AFLC), which will also have an impact on residual charge, as well as the fact that the revenue streams for RIIO 2 are yet to be set. BCL has therefore addressed its response in this context, commenting on the general principles through which the decision has been arrived at as well as the checks and balances that should continue as all of these changes to the charging landscape progress.

BCL wishes to make it clear that, in the removal of price signal to load manage under the current residual charging systems, a significant and well understood driver to adopt such behaviour will have been removed. BCL acknowledges that it should be the Forward Looking Charges that will send price signals to incentivise load management during times of peak demand but, in the absence of any detail as to the nature of this element, BCL believes that significant uncertainty has been introduced with regard to load management activities by industry.

Electricity prices in the UK are already the highest in Europe. This seriously impacts the competitiveness of UK energy intensive industries (EIIs). BCL requests that, as these different workstreams (TCR, AFLC, RIIO 2) progress, the cumulative effects on all network charges are reassessed in a holistic manner, through further consultation and more accurate impact assessment. Ultimately, there should be an assessment setting out exactly how much the changes to network charging will impact the competitiveness of EIIs such as BCL. If charges are going to increase for EIIs, justification must be given including how Ofgem and BEIS plan to protect their competitiveness and the value they bring in terms of jobs and income to the UK economy. Therefore, Ofgem must work with BEIS to ensure that any such impacts can be mitigated in some way e.g. through compensation for the cost of these network charges, as adopted in other EU economies.

## **Consultation Responses**

### **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.

### **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 result of the analysis appears logical based on the assumptions set out. However, as an EII, BCL would prefer an interpretation of “fair” that gives some consideration of our requirement to access competitive electricity prices. For BCL, the critical issue is the net result of all the reforms currently being conducted that will impact on final industrial electricity prices. The UK already has the highest electricity prices in Europe. EIs are unable to pass these high costs onto consumers because they operate in markets where competitors in other parts of the EU and the world don’t face the same high costs. Ofgem needs to be clear how much cost will be shifted onto the sector as a whole, how much will be redistributed within each category and the net cost and pricing implications for sites that see an increase in charges. As stated above, the cumulative effects on all network charges should be reassessed in a holistic manner, through further consultation and more accurate impact assessment.

BCL gives limited weight to considerations around practicality, preferring a system that is robust and proportionate.

- 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?**

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 do not 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.**

As a basic principle it does seem fair for all users in the same segment to pay the same charge.

As stated previously, the UK already has the highest electricity prices in Europe and most EIs, BCL included, are unable to pass these high costs. Any increase in this kind of disparity would be very detrimental to UK EIs. Currently, exemptions from decarbonisation subsidies offered to EIs only cost domestic consumers a few pounds a year. Therefore, Ofgem must



work with BEIS to ensure that any such impacts can be mitigated in some way e.g. through compensation for the cost of these network charges. This is something that other EU countries such as France, Germany and the Netherlands already afford to their ELLs to ensure they remain competitive and contribute vital jobs, materials and income to their economies.

BCL agrees with the principle under the fixed charges scenario that categories of users should be charged on the basis of their net consumption.

- 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)?**

BCL believe there should be a recognition at some point in the system for the service DSR and onsite generation can contribute to the electricity system overall.

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

The benefits would appear to depend on many factors, including the measures put in place under the AFLC regime, other government policies aimed at incentivising smart flexible energy use, as well as DSR and wider energy efficiency improvements, which avoid the need for new generation and network assets altogether. ELLs, such as BCL, have actively managed load for many years and Ofgem should be aware that, as outlined, these proposals remove a significant driver for such behaviour. Whilst that might indeed be the intended outcome of this review, if such load management is not incentivised via some other means, new assets may be required that would otherwise have been unnecessary.

- 7. Do you agree that our leading options will be more practical to implement than other options?**

They do appear relatively straightforward on paper. However, the rules regarding how the charges are calculated (site level, MPAN level, connection points level etc.) must be unambiguous and consistently applied to ensure that ultimately sites are charged on an comparable basis.

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

BCL believes that the use of LLFCs, which were never intended for this purpose originally, could potentially create a system that, over time, becomes unfit for its original purpose or introduces distortions to consumers, if these LLFCs need to be changed for reasons unrelated to the TCR.



In the case of deemed capacity, BCL considers that there should be potential for reassessment of the option if further investigation proves that the assumptions made regarding domestic consumers were wrong, as this would potentially impact 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?**

No comment.

- 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.**

There are many factors that will be influenced by the wider review of charges that can lead to unintended consequences including site disconnections and closures, should the overall impact be too great for business to bear. There is clearly still a high degree of uncertainty inherent in the figures and, as noted previously, at the lack of consideration of DSR in the wider system modelling or the impacts of the AFLC review or RIIIO 2. These should be addressed through further impact assessments and consultations as they develop.

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

No comment.

- 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.**

No comment.

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

No comment.

- 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.

No comment.

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

BCL agrees, that using the concepts and basic criteria Ofgem have arrived at their minded to decision in a logical manner. However, there is no question that there is considerable doubt as to whether or not all the benefits outlined will ultimately be delivered, given the number of changes occurring simultaneously, and we would wish to see fuller assessments completed as more information becomes available.

**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.**

BCL note the uncertainties that have arisen around MPANs, connection points, etc. and, as mentioned previously, we would urge Ofgem to find a way to ensure that this does not create inequality between similar sites.