confederation of paper industries

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Dear Andrew

Targeted Charging Review Consultation – CPI Response

The Confederation of Paper Industries represents the UK paper manufacturing sector and covers the supply chain for the industry from collection of paper for recycling through sorting and papermaking to conversion into final products. We have 46 paper mills in the UK and these are energy-intensive installations consuming some 3 TWh of electricity annually; the larger ones have CHP (since papermaking is a good fit for this technology) and so less than 2 TWh of electricity is supplied by the networks to our sites. We also have more than 100 smaller paper converting sites which are not energy-intensive but which rely on electricity for their operation.

Responses to consultation questions

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

   This seems to be a logical approach and has the advantage of being simple in concept.

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 decision to charge industrial sites having self-generation and those without such facilities equally is grossly unfair and charging self-generators in this way does not accord with the principle of "fairness for all". The concept that all users should pay their share of residual charges if they wish to be connected to the network is logical. However, not differentiating between users who are connected because they require all their electricity to be supplied through the network and users who have invested in CHP and who therefore generate on-site and only require the network connection for an emergency supply, or to cover scheduled maintenance, is inappropriate. The way the latter category of industrial site operates is very different from a typical energy consumer and this should be recognised, especially in cases where such sites export to the network at times of need and help manage local shortfalls to the benefit of the network and other consumers.

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 support the idea that residual charges are based on the voltage level of the connected network and that above.

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.*

   Aside from the decision to set equal charges for industrial CHP and non-CHP sites mentioned above, the concept of equal charging within a user segment is logical. Boundary issues will arise but this will happen whenever and however any boundary is defined. The proposed definitions of user segments appear broadly sensible and the categorisations by voltage level are practical.

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)?*

   No. The decision to charge industrial CHP and non-CHP sites equally is grossly unfair because of the lack of recognition of the (1) difference between a site that needs a network connection for emergencies and scheduled maintenance and one that needs a connection for its daily operations and (2) the network benefits that CHP sites can provide both in lessening the load on a local network and in exporting to that network at times of need.

   CHP is recognised as BAT in the pulp and paper industry and Government has supported investment in this form of decentralised generation in industries where this technology is relevant. CHP is vitally important to us – some 80% of the paper manufactured in the UK is made at the 15 paper mills having CHP; for our sector this is almost all gas turbine or biomass-based technologies. The electricity generated forms more than 40% of the 3,000 GWh consumed by our sites annually. 500 GWh of CHP-generated electricity is also exported to local distribution networks, supplementing that sourced by them from the transmission system.

   Financial incentives for constructing and operating CHP have been reduced and removed over the past few years (e.g. removal of LECs, reduction in embedded benefits) which seem to be self-defeating policy changes which are in direct contradiction of Government's stated policy of support for high efficiency co-generation.

   It seems perverse that the proposed allocation of a residual charge for use of the transmission network could mean that industrial CHP is not built or not replaced – thus leading to a greater requirement to reinforce the same transmission network at consequent increased cost.

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

We have not analysed the methodology used to assess consumer benefits and so cannot comment on this question.

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

   Yes.

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

   In general, yes, with the following caveats. Calculating the effect of the options on EHV sites is particularly difficult given the site-specific nature of current charges and the lack of information in the consultation document on how the fixed charges option is to be implemented. This makes it difficult to assess whether banding all EHV sites together is a good idea or whether sub-banding would be more appropriate. Also, under the Fixed Charges option, the idea of charging HV sites based upon the number of MPANs rather than deriving a charge per site penalises sites who have – perhaps for historic reasons or reasons which confer no operational benefit – multiple MPANs compared with similar sites having only one. A per site fixed charge would in our view be more appropriate.

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?*

   Yes.

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?

    It is difficult for us to comment as the calculated effects on the paper sector are not necessarily in line with the high-level distributional effects set out in the consultation document. For instance, at the highest level, the consultation document shows that both options result in a shift of costs from the domestic sector to the HV and EHV sectors. On that basis, we might expect our costs to increase (only at the sector level – at individual level there will be winners and losers). While we see this effect at EHV level when applying the methodologies to our sector the effect is not so apparent at HV in either the Fixed Charges or Agreed Capacity scenarios. We think we know the reason for this, but it is difficult for us to comment on the wider impacts across all sectors.

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. We believe the changes should be delayed and implemented at the same time as the outcome of the AFLC review. The two reforms are interlinked and introducing one before the other could deliver disoptimal outcomes. A delay in implementation would also allow more time to consult again on the TCR and for the Capacity Market to be reinstated. Rushing implementation of the TCR on the basis of consumer cost savings when even Ofgem notes that these are very uncertain seems not to be a good decision for anyone.

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

    Subject to the above caveats on timing and the treatment of CHP, we agree with the minded-to decision.

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.*

    No comment.

Please come back to us if anything in the above is unclear or requires further explanation.

Yours sincerely

David Morgan, CPI