

4th February 2019

Submission to: Ofgem - TCR@Ofgem.gov.uk
From: British Ceramic Confederation

**BRITISH CERAMIC CONFEDERATION RESPONSE TO OFGEM CONSULTATION ON
TARGETED CHARGING REVIEW: MINDED TO DECISION AND DRAFT IMPACT ASSESSMENT**

The British Ceramic Confederation (BCC) is the trade association for the UK ceramic manufacturing industry, representing the collective interests of all ceramic sub-sectors. With 90 plus member companies, covering the full spectrum of ceramic products, BCC represents over 90% of the industry's UK manufacturing capacity.

About the UK Ceramics Industry

The ceramic sector as a whole is highly-diverse and includes manufacturers of:

- | | | |
|----------------------|------------------------|----------------------|
| ▪ Bricks | ▪ Clay Roof Tiles | ▪ Clay Pipes |
| ▪ Gift and Tableware | ▪ Floor and Wall Tiles | ▪ Sanitaryware |
| ▪ Refractories | ▪ Industrial Ceramics | ▪ Industry suppliers |

Along with product diversity, as businesses ceramic manufacturers vary significantly from single site SMEs (~75%) through to larger UK-based / multi-national organisations operating multiple manufacturing sites. Our sector (including suppliers) employs approximately 20,000 people directly across the breadth of the UK, generates annual sales of £2 billion and is an active exporter, with over £500 million in export sales.

Ceramic manufacturing is an energy-intensive process (making up to 30-35% of total production costs). Despite 80% of BCC members being 'small / medium' industrial electricity consumers, and electricity only accounting for 15% of total energy consumption in the industry, approximately 40% of all energy expenditure across the sector is on electricity. This accounts for use in very high temperature firing (for some technical ceramic and refractory producers using electric arc / induction firing up to 2,750°C - unique, highly electro-intensive processes) and more generally across the sector where it plays an essential role in powering kiln control systems, mixing, grinding, shaping processes, conveyers, lighting etc. Our members are predominantly high-voltage connected users, although to a lesser extent do span low voltage and extra voltage classifications (reflecting the sector's diversity).

All UK ceramic businesses compete in fiercely competitive global markets and are at high risk of carbon, job and investment leakage. Access to secure industrial energy supplies at internationally competitive prices is therefore of critical importance to our members. However with the UK already having amongst the highest industrial electricity costs in Europe, real action is necessary to help redress this imbalance. Some relocation of production, loss of jobs / skills, financial costs to Government (and potential for net increase in global emissions) has already taken place in our sector, some of which has been directly attributable to uncompetitive electricity costs. We view network charging as a key part of the cumulative UK electricity burden, and it is essential that Ofgem fully-appreciate the context to which the Target Charging Review (TCR) is likely to impact energy-intensive industries, including ceramic manufacturing.

Consultation response

BCC is a member of the Energy Intensive Users' Group (EIUG) and Engineering Employers Federation (EEF) and we support their responses to this consultation. Furthermore, views of the ceramic sector are provided below:

- Action to reduce network costs is welcomed by the ceramic sector and we continue to actively contribute to Ofgem's ongoing work. However before pressing ahead with the TCR implementation it is essential that end users can clearly identify, with relative confidence, how either charging proposal (or any other inter-related network charging review) would impact their final electricity bills.
- After liaising with our members, our own assessment of potential impacts from the two proposed charging options illustrates a wide-range of outcomes within each user group (from significant cost increases, through to significant cost decreases under each option). Building on this, we feel that the impact assessment was

somewhat misleading with the examples of potential cost impacts, which may not reflect outcomes for sites within each user group. The outcome variability within user groups could have been made more-clear by showing ranges of potential outcomes (rather than individual examples based on a single set of parameters / assumptions). Furthermore, in recognition of both the complexity and importance of this issue, publication of a TCR 'cost calculator / tool' within the consultation suite would have also helped companies better understand (and for Ofgem to collect more data on) the potential impacts in a consistent manner. This would also allow stakeholders to be in a better position to comment further.

- Based on the above, it is not plausible for BCC to give any overarching endorsement to one charging option over another. Similarly, and cognisant of the views we have heard from other manufacturing industries, we do not feel that there is sufficient information for any decision to be reached on the appropriate approach to residual charging at this stage.
- As the network access and forward-looking charges review is not fully-aligned to the TCR timeline (certainly from a stakeholder perspective in any case) companies are unable to fully-understand or assess the overall net impacts both reviews would have. We need to understand the cumulative impact of both reviews.
- We are aware that a number of impact assessment uncertainties may have substantial impacts on outcomes (as emphasised by EIUG / EEF).
- In light of the above issues - modelling uncertainties, disjoint with the access and forward-looking charges review, and limited appreciation of potential electricity cost impacts by consumers and Ofgem - we are of the opinion that further consultation should take place. This would allow for better alignment between network charging review workstreams and for further information to be collated.
- As part of further work in this area, an international comparison of approaches to network charging and benchmarking (including public reporting), in comparable economies, would be useful.

We trust this is sufficient for your requirements and no information needs to be treated on a confidential basis. Please feel free to contact us if you require any further information.

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