

Respond to:- TCR@ofgem.gov.uk – by 4th February

Dear OFGEM,

Please find below the response of INOVYN ChlorVinyls Limited (Inovyn) to the Ofgem Consultation *“Targeted charging review: minded to decision and draft impact assessment”*.

Inovyn is wholly owned by INEOS, one of the world’s largest chemicals companies. Inovyn operates extremely electro-intensive processes on 8 major sites across 7 European countries. Our processes involve the electrolysis of salt to produce chlorine and caustic soda – key commodity chemicals used extensively throughout the wider chemical industry, and we consider electricity as a key raw material. The success of our sites is highly dependent on cost competitiveness – with electricity being the largest cost in the electrolysis process.

In the UK, Inovyn operates major production sites in Runcorn (Cheshire) and Newton Aycliffe (County Durham). Both of our sites are fed by Combined Heat and Power (CHP) plants, designed to operate to provide heat to our facilities and which when combined with power generation represents the most efficient technology for the provision of heat and power (more efficient than CCGT and of course peaking generation with no heat recovery). CHP plant is usually very capital intensive and investments have a lifetime of many years. It has been actively promoted by UK government as a key enabler in reducing UK emissions¹.

We are alarmed that the recent concerns regarding the growth of small (inefficient) peaking plant is leading to inappropriate treatment of all on-site generation, but in particular highly efficient CHP.

For our industry UK delivered electricity prices are the highest we face in Europe (taking into account wholesale prices and all add-on costs). The proposals being made under this TCR as they stand are likely to significantly increase our site costs. They will also undermine existing investments that we have made in highly efficient generation technologies, will have a damaging effect on any future investments on site and will lead to a loss of demand response across the network.

We recognise the challenges in delivering a charging regime for connection which is fair and more cost reflective. This regime must also recognise that the UK is not an island in respect of many energy intensive products, and that we have already seen significant carbon leakage this century as electro-intensive manufacturers have moved out of the UK. Whilst it is the role of government and not Ofgem to properly consider competitiveness issues, a review which is blind to the impacts of policy change, and which threatens to leave stranded costs spread over fewer customers if the gradual migration of EII continues, cannot be acting in the best interests of any consumers.

We have provided in the attached paper some general remarks on the TCR along with answers to a number of the questions you have raised. We would be happy to discuss the proposals and our ideas with you directly.

With very best regards

Mark Fitchett
Electricity Procurement

¹ <https://www.gov.uk/guidance/combined-heat-and-power>

General Remarks

We would make the following general remarks on the TCR Consultation:-

- The Targeted Charging Review Consultation and the proposals set out are too complicated for (even the most sophisticated) industrial users to properly assess the potential impacts;
- Our best estimate is that in both scenarios described, we face significant or potentially very significant costs increases;
- While we understand that the Significant Code Review looking at forward charges may reduce costs, we have no visibility of this as the SCR is not being carried out in the same timescales as the TCR. We believe these must be carried out simultaneously. In any case, we find it difficult to believe that any benefits arising from the SCR could compensate for the potential cost increases we face;
- There is an unwarranted bias against high load factor and highly efficient CHP/embedded generation; CHP and embedded power is a good thing and keeps demand off the system – it should not be discriminated against;
- There is no acknowledgement that CHP is more efficient than CCGTs.
- CHP plants are recognised as being the most efficient means of providing heat and power and are supported – although support mechanisms have been continually eroded. CHP Plants operate primarily to provide heat. This proposal risks the most efficient technology being prematurely closed down and replaced with less efficient CCGT;
- There is also no recognition as to the extra costs (distribution investment) that will be incurred if, as Ofgem's impact assessment says, on site generation is replaced by Transmission connected CCGTs.
- OFGEM have, we believe, made flawed assumptions around TRIAD – specifically there has been no estimate of the impact on the system of companies not bothering to avoid the TRIAD;
- Circumstances vary for every site – even in the case of INEOS – one approach does not fit all
- There are lots of examples outside the UK where EIs get special deals/arrangements
- OFGEM must recognise the risk of negative unintended consequences with this proposal with the potential to make industrial sites less competitive, to reduce the amount of highly efficient CHP and to reduce the amount of demand response currently provided under the TRIAD arrangements.

Responses to selected consultation questions

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)?

On-site generation covers a broad gamut of technologies and operations, which directly impact the burden they place on network costs.

For example:

Small scale gas engine or diesel peaking plant has been installed for the purpose of lessening consumption at peak periods, avoiding network costs. They have low load factors, and there is a strong argument that they should not reduce the residual charge to a site.

On-site CHP is usually heat led. The plant operates with very high load factors, and often only reduces output for maintenance. We believe there is a strong argument for treating customers with high load factor on-site generation differently.

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

Ofgem's assumption that investor confidence will not be affected is at best simplistic. At the very least, there will be a "settling in" period whilst investors see how the changes impact the market. It is also not clear if the assumptions or assessment around investor confidence include other co-incident regulatory change, such as the suspension of the Capacity Market. The cumulative impact of such uncertainty on investment is likely greater than the sum of its' parts.

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

We note that Ofgem's eventual aim stated in 4.77 is to place the residual on "final demand". In the case of large-scale transmission connected sites, we assume "final demand" means the demand at the connection to the transmission system as measured by the relevant Balancing Mechanism Unit (BMU) settlement meter or meters for such sites and would be grateful if Ofgem could clarify this as soon as possible.