Iggesund Paperboard Response to Ofgem's TCR Consultation

About Iggesund

1. We are a leading manufacturer of paperboard. We make one of the world's highest quality brands (Incada), which is widely used in sectors such as pharmaceuticals, cosmetics, confectionary, food and drinks.
2. We are a major employer in Workington, Cumbria, employing 400 people directly and supporting a further 1200 in the supply chain.
3. In 2013, we invested over £100 million in a biomass CHP plant at our Workington mill. The plant is fuelled by a mix of virgin forest-based products, co-products and residues. Also in the fuel mix, is an increasing volume of biomass-willow, grown by local farmers under an Iggesund-run scheme. The plant has reduced Iggesund's carbon emissions by 190,000 tonnes a year. Overall, the process is carbon neutral.
4. The biomass CHP plant makes the full pulp and paperboard manufacturing operation self-sufficient in both electricity and steam. Electricity is imported from the grid only on the rare and brief occasions, generally when the plant is shut down for maintenance. We also export electricity to the grid - 140 GwH last year - enough to power 10,000 homes.

Overview of our response

5. We understand the factors that have led Ofgem to undertake its TCR and the principle that everyone connected to the grid should pay something towards the fixed costs of the network. But the charges should seek to avoid actively discouraging investment in environmentally-friendly onsite generation which helps to reduce the overall load on the grid.
6. We agree that **fixed charges by user category is the option that most closely meets Ofgem's TCR principles**. It also has the merits of relative simplicity and predictability.
7. The Agreed Capacity model, as Ofgem's consultation document acknowledges, is more complex and could introduce incentives, particularly for new users, to 'game' the system by setting a lower capacity agreement.
8. Our modelling suggests that an Agreed Capacity model would greatly exacerbate regional disparities and have very significant redistributive effects within user categories, especially for EHV connected sites. In our view, Agreed Capacity is inferior to the Fixed Charges model on fairness, proportionality and distributional impact.
9. Even within the Fixed Charges model, EDCM fixed charges (for EHV-connected sites, DUoS) become an increasingly important component of overall charges. These vary very significantly by region (from only £3,160 a year for Scottish Hydro to almost £80,000 a year in the North West). That level of variation in costs can create competitive distortions by region, not just within a user category but also between companies in the same sector who may be in direct competition with one another.

10. We believe there is a case for a **regional equalisation mechanism** to mitigate these competitive distortions. We recognise that the residual charge is an artefact of separate allowed revenues and forward-looking charge revenues. It may therefore be more appropriate to address this question as part of Ofgem's review of EDCM charges in its Access and Forward-looking charges Review. But it does need to be addressed.
11. Predictability of charges is of particular importance to large users (a) because energy costs represent a significant factor in total production costs; and (b) because many large users will require to make very significant investment in new or upgraded plants. This TCR is the third (adverse) regulatory-driven decision since we invested in the Workington plant. Further piece-meal changes in the coming months and years will make future investment decisions less predictable in outcome and thus more difficult to make.
12. For this reason, we favour Ofgem's option of **a phased transition between 2021 and 2023**. By that time the impact of Ofgem's Access and Forward-looking charges should be known and the likely impact of charges under RIIO2 should be much clearer. This would give large users a comprehensive picture of their future energy costs and thus create a more stable environment for investment.

Response to Ofgem's specific questions

Our response on the specific questions is as follows:

1. We agree that residual charges should be levelled on final demand only. Adding in generators would add unnecessary complexity and in many cases, suppliers would simply pass on the charge to end users.
2. Yes, but we would have welcomed greater emphasis in the TCR and the document on predictability, which is particularly important for large users.
3. We support the current arrangements whereby charges are based on the voltage level at which a user is connected to the network and higher voltage levels.
4. Subject to our comment on **5** below, it is in principle 'fair' for all users in the same segment to pay the same charge. But this is not the case under Ofgem's 'minded to' decision. As noted in our Overview section (paragraphs 8 and 9), only users within the same DNO pay the same charge. Residual charges vary significantly by DNO. These charges are not a pricing signal to which users can easily respond, particularly large users who will have extensive sunk cost in location-specific plant. Instead they act to distort competition within industrial sectors. For this reason, we suggest the need for a regional equalisation mechanism to mitigate these distortions. We recognise that such a mechanism may be more practicably considered under Ofgem's Access and forward-looking charges Review.
5. The same charges for those with or without on-site generation makes connection to the network for the latter a very expensive 'insurance policy'. There is precedent for recovery of fixed as well as variable network costs being varied between low users and regular users: in mobile telephony, during the early years of development of the pay as you go market, light users were charged a lower

overall tariff rate than heavy users. This helped to grow the overall market and optimise demand on the fixed network.

6. No view.
7. Yes. We believe that fixed charges will be the most practical to implement.
8. Yes.
9. Yes. LLFCs may not be perfect but are a well-understood industry measure.
10. The distributional modelling reasonably reflects impacts between the different categories of user. But they do not capture the distributional effects within a category of user. As Ofgem acknowledge in the document, the re-distributional effects, particularly within the EHV category could be high. But industry is being asked to respond with almost no information about how high and where they will fall. We would, therefore, urge Ofgem to undertake and publish research on this before it announces its final decision on the TCR.
11. No view
12. No view
13. No view
14. As noted in the Overview, we support Ofgem's option of phased implementation of residual charges between 2021 and 2023. This should allow industry to get a comprehensive picture of energy costs, considering the impact of Access and Forward-looking charges and of RIIO2, providing greater forward visibility and a more stable environment for investment. It would be helpful, should Ofgem follow this option, if Ofgem would set out quickly how they would propose to phase the transition arrangements, to help industry plan ahead to minimise the (unspecified) complexities in the transition.
15. Subject to the points made above, yes.
16. No view.