

MINERAL PRODUCTS ASSOCIATION RESPONSE TO THE OFGEM CONSULTATION: TARGETED CHARGING REVIEW

INTRODUCTION

The Mineral Products Association (MPA) is the trade association for the aggregates, asphalt, cement, concrete, dimension stone, lime, mortar and silica sand industries. With the affiliation of British Precast, the British Association of Reinforcement (BAR), Eurobitume, MPA Northern Ireland, MPA Scotland and the British Calcium Carbonate Federation, it has a growing membership of 520 companies and is the sectoral voice for mineral products. MPA membership is made up of the vast majority of independent SME quarrying companies throughout the UK, as well as the 9 major international and global companies. It covers 100% of UK cement production, 90% of GB aggregates production, 95% of asphalt and over 70% of ready-mixed concrete and precast concrete production. In 2016, the industry supplied £18 billion worth of materials and services to the Economy and was the largest supplier to the construction industry, which had annual output valued at £152 billion.. Industry production represents the largest materials flow in the UK economy and is also one of the largest manufacturing sectors.

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CONSULTATION RESPONSE

The part of the TCR consultation of most impact to MPA members is that relating to how transmission and distribution residual charges will be set, therefore this response is set out in relation to that element only and does not cover other parts of the consultation on embedded benefits. The questions of most relevance to MPA members are addressed below the general MPA position.

General MPA Position

The MPA represents a wide range of organisations, from large energy intensive cement sites that are EHV distribution connected through to quarries that are connected at lower voltages. It is therefore impossible for MPA to select one of the proposed options from Fixed Charge or Agreed Capacity charge because each option will suit different sites depending on their connection, capacity and their location.

However, what is of most concern to MPA is that the information contained in the consultation and supporting documents is not sufficiently detailed to enable an accurate calculation of the impact on our members. This means that we are unable to even attempt to determine the better option for the sector or even segments within the sector.

Nor are we able to advise members on what bill impacts they might expect in the longer term based on the information provided. In particular, the consultation proposes removing generators from paying the residual charge but the analysis and modelling supplied still includes these generators. Whilst presentations at the Charging Futures Forum on 15th January set out how the EDCM Fixed Charge could range from £47,186 to £188,744 in the North East and could

reach as much as £300,000 in other areas, Ofgem stated that they were unable to determine exactly what the charge would be for each region based on demand alone (that is, with the generator element removed).

This uncertainty is compounded by the recently opened Significant Code Review into Access and Forward Looking Charges (AFLC), which will have an impact on residual charging, as it is the AFLC which determine the residual charges. Therefore, even if Ofgem could supply more detailed information to enable MPA members to accurately calculate the proposed Fixed Charges, it's highly likely that the actual charge implemented would change following conclusion of the parallel AFLC work anyway. Thus, even if the modelling and analysis in the Ofgem TCR consultation were improved, as these consider residual charge reform in isolation, and there is no understanding of the outcomes of the AFLC work, businesses are unable to calculate the true impacts of either **Fixed Charge or Agreed Capacity** options. Equally, as the revenue streams for RIIO 2 are yet to be set, and as these will define the total charges to be recovered during the RIIO 2 period, it is not possible for business to assess which of the Fixed Charge or Agreed Capacity options will be the preferred option for the longer term.

Electricity prices in the UK are already the highest in Europe. This seriously impacts the competitiveness of energy intensive industries (EII's). It is absolutely unacceptable that Ofgem can consult on charging proposals based on unknown information, let alone select a "minded to" position where businesses can't actually calculate what it would mean for them. This also makes it impossible for the affected businesses, or the Government, to calculate the impacts on international competitiveness. This situation is intolerable for UK businesses operating in a competitive global market and jeopardises inward investment at a time of heightened uncertainty as the UK exits the EU.

MPA demands that Ofgem put a hold on any changes to residual charging until accurate information can be supplied to consumers on the cost, and that means waiting until the conclusion of the work on AFLC. Furthermore, there must be an accurate impact assessment setting out exactly how much the changes to residual charging will impact the competitiveness of EII's. This cannot look at residual charges in isolation but include all network charges in a holistic manner. If charges are going to increase for EII's, 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.

MPA Answers to Specific Questions

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

This would provide a simplification, but as set out above, the unknown impact this will have on a Fixed Charge is hindering any kind of impact assessment on consumers. More detailed information is therefore required on the cost impact of levying residual charges on demand only before a complete answer can be supplied to this question.

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 principle of fairness as set out in the TCR doesn't fully take account of the impact increased charges will have on the competitiveness of EII's. As set out above, the UK already has the highest electricity prices in Europe. EII's 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. It is important that any assessment of 'fairness' takes full account of the competitiveness of EII's and MPA would like Ofgem and BEIS to undertake a full and transparent impact assessment that shows exactly how the change to residual charges will affect the competitiveness of EII's and how this impact will be mitigated.

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?**

This seems like a good approach but the consultation document seems to indicate that EDCM consumers are all treated the same way regardless of the voltage of their connection, which appears to go against the arrangements described above. There is also often some uncertainty over the boundary between EDCM and CDCM charges, which could result in EDCM connected users subsidising CDCM connected users.

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.**

In principle this approach seems reasonable, but it will not take account of the impact the charges will have on the competitiveness of EII's. Therefore Ofgem must work with BEIS to ensure that this impact can be mitigated in some way e.g. through compensation for the cost of high network charges. This is something that other EU countries such as France, Germany and the Netherlands provide for their EII's to ensure they remain competitive and contribute vital jobs, materials and revenue to their economies.

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)?**

Cement manufacture is a continuous process that operates 24 hours a day, 365 days a year with the exception of short shut down periods for maintenance work. Despite this, cement manufacturers operate electro-intensive plant as flexibly as possible to offer demand side response (DSR). It is important that, somewhere within the network charging system, the benefit this DSR provides to the electricity system overall is recognised. This recognition could be through the AFLC rather than the residual charges, but industrial electricity consumers that have managed their demand on the grid previously need

reassurance that the changes to residual charges will not have a significant negative overall impact on their electricity costs, which it is not currently possible to know as the outcomes of the AFLC are unknown. In order to support changes to the residual charging approach, clarity is needed on what reward there will be for load management in the future.

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

More detail is required on the methodology used to assess consumer benefits in order to determine if there are any reasons why these benefits might not materialise. The impact of any changes to AFLC needs to be known to determine what impact they could have on residual charges and the modelling needs to take into account DSR or wider energy efficiency improvements, which would avoid the need for new generation.

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

On the surface they appear practical to implement, but in trying to determine the impact of the residual charging proposals on MPA product groups, several questions have arisen including whether or not the Fixed Charge is applied per site or per MPAN. We understand that Ofgem have clarified that, for EDCM connected sites, charges will be per site, not per MPAN. However, for CDCM charges will be per MPAN, but only for the main connection MPAN, and not for sub-metering. Ofgem should make this clear within the consultation as it is possible that policies/ schemes such as Climate Change Agreements, may have forced some sites to increase sub-metering resulting in an increase in MPAN's. However, it is also possible, for historical reasons, that some sites will have multiple MPAN connections which would each attract a charge. A method of aggregating MPAN's so that appropriate charges are applied per site is required.

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

No comment

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.

As set out above, it has been very difficult for MPA to assess the impacts of the options on our members. The lack of information on how many demand sites there are in each region, plus the unknown changes to AFLC, and how DSR may be treated in future, make any assessment relatively meaningless. However, where a rough assessment has been

possible, this doesn't appear to align with the assessment in the consultation document. For example, unlike the Ofgem assessment, in some cases it appears that even for large EII sites, the Fixed Charge option, could be lower cost than the Agreed Capacity option. However, as stated above, there is a lot of uncertainty around this and MPA reiterates that Ofgem must put a hold on any changes to residual charging until accurate information can be supplied to consumers on the cost, and that means waiting until the conclusion of the work on AFLC. Furthermore, there must be an accurate impact assessment setting out exactly how much the changes to residual charging will impact the competitiveness of EII's.