UK STEEL – SUBMISSION TO CONSULTATION ON REFINED RESIDUAL CHARGING BANDING IN THE TARGETED CHARGING REVIEW

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About UK Steel

UK Steel, a division of Make UK, is the trade association for the UK steel industry. It represents all the country's steelmakers and a large number of downstream steel processers.

Submission to Consultation on Refined Residual Charging Banding In the Targeted Charging Review

UK Steel is keen to respond to the consultation on Refined Residual Charging Banding in the Targeted Charging Review. The TCR process could have a large impact on the UK steel industry, with potentially significant changes in network charging. Last year, a UK Steel report[1] showed that the sector paid 51% more than competitors in Germany and double of steelmakers in France. This is also evident in network charging, where British steelmakers pay up to eight times more than French and German sites. This has a substantial impact on the sector's competitiveness and ability to attract investment, and as such, reform of network charging should be treated very carefully. Our response focuses on two main points: The consultation process itself and the potential impact of the proposals.

Consultation process

We are very concerned about the manner in which the consultation has been conducted, considering the potential wide ramifications for energy intensive industries, such as the steel sector. The consultation is only open for 22 days (issued 3rd September and closing 25th September), which has not been sufficient time for stakeholders to review the proposals and make proper assessments of the potential implications of the new proposals. It does not seem to have been understood that EIIs are end-users without the same level of technical understanding of network codes and charging and that more direct engagement is necessary to ensure that they fully understand impacts of the proposals.

Furthermore, it should be reiterated that this consultation is again acting in isolation without regard to the ongoing SCR. Some of the concepts discussed at stakeholder forums suggest the SCR may result in significant changes in the balance of charges and the impact of the TCR changes. It is as such not appropriate to consult on TCR changes if these will be significantly changed by other ongoing reforms. Again, we strongly encourage Ofgem to delay the TCR reform process, so that it can take place in parallel with the SCR process.

Finally, we are also troubled by the lack of available data and analysis in the consultation document. It should be unacceptable to publish a consultation without sufficient data for consultees to understand the proposed charges and calculate the effect on their business. There are just two tables which illustrate how residual network charges may apply under the proposed bandings for one region, but no clarification as to how Ofgem arrived at these figures, on what basis, or the calculations behind them. We are furthermore concerned that these figures are not representative across all GB regions and would entail higher costs in other regions. There is a general lack of transparency in this consultation and an inability for consumers, especially EIIs, to understand the potential implications. It is therefore impossible for us to make an accurate and proper assessment of the proposals and their impact on our sector, and it is, therefore, our conclusion that Ofgem has not consulted in an open and appropriate manner.

Consultation proposals

The UK energy intensive industries face some of the highest industrial electricity prices in Europe. This damages the steel sector's competitiveness, as it is both electro-intensive and highly exposed to international competition, meaning it cannot pass on additional costs to customers. With steel producers' direct competitiveness and levels of investment both being affected, electricity prices have become a major ongoing concern for the sector and its long-term sustainability. Industry analysis suggests that network costs for UK

[1] UK Steel (2018) The Energy Price Scandal - A Fair Power Deal for UK Steel

steelmakers are around £9/MWh compared to just above £1/MWh in France and Germany. Electricity costs can represent up to 120% of UK steel producers' GVA and around 20% of their conversion costs. As they are competing in an international market, they are unable to pass on any additional costs over and above those faced by their competitors. A consistently higher energy price, therefore, impacts their ability to compete and diminishes their profitability. Besides the impact on direct competition, the more insidious impact is on long-term investment. All of the major steel producers in the UK are part of multi-national companies with facilities elsewhere in the EU and three operating outside the EU. In this context, the cost competitiveness of each particular market is crucial to attracting investment. Persistent cost disadvantages lead to underinvestment which in turn leads to further erosion of competitiveness.
Any changes to network charging are therefore of vital importance to the steel sector. When assessing the residual charges applied to British consumers, Ofgem needs to not just take into account the overall system cost impact and impact on general consumers, but also the direct impact on energy intensive industries.

We acknowledge that this is in part a theoretical discussion at present and as such it is difficult to provide cost examples of the implications at this point in the process. In addition, the final charges will not be calculated until after the detailed process of industry code changes, which takes place following the outcome of this consultation, and that two further rounds of consultation may be undertaken. However, we are very concerned that this proposal will create a path-dependency, where any future consultations and decisions will be bound by these specific proposals and future. Once the choice to proceed with the proposed principles for banding, there will be very little scope for diverging, even if the reform will significantly increase network charging for EIIs. It is as such unfeasible for us to agree with these proposed bandings and charging principles until the full implications have been made clear.

The tables listed in the annex (figure 2 & 3) suggest a significant increase in residual charges for Extra-High Voltage users. Although we have not been able to make a full assessment due to the lack of data provided as mentioned before, to all intents and purposes such increases in network charges would be completely unacceptable to the steel sector, as it would severely damage our competitiveness as outlined above.

Several of our members have worked with their own DNOs to make sense of the proposals, but the DNOs have reported an inability to replicate the figures listed in the consultation and suggest that the EHV figures must be incorrect. They have therefore been unable to advise their customers on this matter.

Consequently, we strongly encourage Ofgem to delay this consultation until it is possible to provide suitable data to the EIIs for a full assessment of the implications of the proposals. The lack of transparency, data, explanation, and length of consultation period all warrant a suspension. We would also suggest that additional meetings between officials and industry representatives are arranged to help educate and inform EIIs while acknowledging the implications to energy intensive manufactures of any changes to residual network charging.