

25th September 2019

Dear Mr. Burgess,

Future Charging and Access programme – consultation on refined residual charging banding in the Targeted Charging Review

We have read your letter of 3 September and accompanying Annex. To say that we are both disappointed and perturbed by the contents of the letter, would be a significant understatement.

Far from these proposals being a 'refinement', they represent a major departure, both in methodology and financial impact, from the sensible conclusions of Ofgem's 'Minded To' decision. As your letter acknowledges, these latest proposals represent, in effect, a return to the so-called Hybrid option, which was rejected, rightly in our view, in Ofgem's Minded To decision.

In terms of financial impact on us, the latest proposals represent an increase of more than 540% on those in the Minded To decision. You must surely accept that that is substantially more than a 'refinement'!

Your illustrative figures are based on the Northeast region. We know from our own experience that residual charges in the Northwest region, where we are located, are higher, for whatever reason. So, if these latest proposals were adopted, we would be looking at a seven -figure annual charge for the privilege of using electricity from the grid for, normally, one day a year.

When our parent company, Holmen, decided 6 years ago to invest over £100 million to build the CHP generator to power our paperboard mill (and export 140 GWh of renewable electricity a year to the grid), they could not reasonably have foreseen an adverse impact of the scale of these latest proposals on our operations. They would certainly consider very carefully and sceptically any further investment in the UK, in view of the unpredictability of the regulatory environment.

We would also hold that, in terms of distributional effects, these latest proposals go much further than 'necessary to achieve objectives', thus breaching Ofgem's own core principle of proportionality. They impose a large and disproportionate impact on large (and especially on large but very occasional) users of energy from the grid.

In terms of due process, to propose changes of this magnitude on the basis of the scant information in a 4-page letter and short annex with only three weeks of consultation, is so far from ideal that it could open Ofgem to Judicial Review.

To take two examples, we are unable to comment on the change to the proposed charging base from the, well understood, line loss factors to a voltage basis. Nowhere in the 3 September is the rationale for this change explained or the pros and cons explored. The basis for the charging bands also appears to be arbitrary; again, nowhere is the rationale for the banding explained.

In short, we see absolutely nothing in these latest proposals to commend them. We would, therefore, earnestly encourage Ofgem to reconsider, and preferably to return to the sensible conclusions of its 'Minded To' decision.

I am copying this letter to Jonathan Brearley at Ofgem and to David Morgan at the CPI.

Yours sincerely



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Managing Director

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