Patrick Cassels, Head of Electricity Network Access
Ofgem
10 South Colonnade
London
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Via Email

25 August 2021

Dear Patrick,

Subject: Access and Forward-looking Charges Significant Code Review: Consultation on Minded to Positions

Thank you for the opportunity to respond to your "minded to" consultation. This is a SIMEC response on behalf of the GFG Alliance. GFG encompasses three core industry brands: LIBERTY Steel Group, ALVANCE Aluminium Group and SIMEC Energy Group. We have a large generation and industrial demand portfolio in GB and employ around 3,000 people in the UK steel sector. The metals and metal products we produce face intense international competition. This severely limits our ability to pass through costs our competitors aren't exposed to. Energy costs materially affect our production costs, exceeding 20% of Gross Value Added (GVA) at several sites. Fair, internationally competitive network charges are a top priority for our and GB's industrial businesses.

Summary views

Our substantive comments are on the proposal to levy Transmission Network Use of System Charges (TNUoS) on licence exemptible distribution-connected generation ("SDG") on the same basis as licensable and transmission connected generation ("TG").

We acknowledge Ofgem's comments that SDG and TG in the same geographic area have a similar effect on transmission network flows (and therefore transmission investment costs) and it is desirable that they face similar charges (at least in principle).

Our concern is that Ofgem is not being internally consistent on network charging, which is leading to significant unfairness for certain types of user, particularly large industrial users with co-located generation.

To take an example from our own portfolio, GFG operates the UK's last remaining aluminium smelter, known as Lochaber, in Fort William, Scotland. The smelter is a year round baseload asset consuming c. 600GWh of electricity per annum. The smelter gets most of its electricity from a co-located hydro power station, producing c. 550GWh per year. The balance is imported from the grid and at times there are modest exports to the grid. The hydro generation is approximately baseload, with slightly less output in summer and slightly more in winter, reflecting seasonal rainfall patterns. The combined asset (smelter plus hydro) has operated for nearly 100 years. There is relatively little flow of power across the import/export boundary with the public distribution network, certainly compared to the site's gross consumption. The site's overall effect on upstream transmission network flows (and therefore transmission investment costs) is modest.

Despite Lochaber's modest effect on transmission investment costs (generation and demand being approximately equal most of the year), Ofgem's CMP343 "minded to" decision and this Access SCR "minded to" consultation would both lead to substantial increases in TNUoS charges at the site. The CMP343 "minded to" decision would add over £800,000 per year to the site's TNUoS bill, as well as "flooring" its locational demand signal, making it impossible to earn TNUoS credits by increasing consumption at chargeable times. This is despite the fact that National Grid's "Transport Model" indicates that increased consumption at the site would reduce transmission investment costs. Given that this "minded to" consultation professes concern that some network users (in this case SDG) are not facing fully cost reflective TNUoS signals, it is difficult to understand how Ofgem's CMP343 "minded to" position is sustainable. It is all the more vexing that Lochaber would be harmed by both flooring the demand TNUoS signal at zero (CMP343) and being charged as if it were large TG in respect of its generation (this "minded to" consultation) when the logic underlying these positions is clearly in conflict.

We have broader concerns about the fitness for purpose of current TNUoS charges, which call into question whether it is right to make the changes proposed in this "minded to" consultation at this time. To cite a few recent examples, CMP353 (Stabilising the Expansion Constant from 1 April 2021) was rushed through on an urgent basis, essentially due to a loss of confidence that the method for calculating the Expansion Constant would lead to reasonable locational TNUoS charges in all regions. CMP324/5 (Generation Zones/Re-Zoning) tacitly acknowledged that the number of transmission zones required by the CUSC's cost reflectivity rules was becoming untenable. The CMP343 "minded to" decision to impose flooring of demand locational TNUoS tariffs in northern GB regions is unfair and gives the impression of a "sticking plaster" solution to TRIAD based locational demand signals that may no longer be fit for purpose. There are questions about whether the "peak" and "year round" backgrounds in National Grid's Transport Model, from which locational TNUoS signals are derived, are really reflective of actual generation backgrounds on the system. In short, TNUoS arrangements as a whole look increasingly questionable, and neither Ofgem's CMP343 "minded to" decision nor this "minded to" consultation addresses the issues in any meaningful way.

At this moment in time, we do not believe that Ofgem's proposals (either the CMP343 "minded to" decision or this "minded to" consultation) are sufficiently coherent or of sufficient quality to be approved. As frustrating as it may be for Ofgem and the wider industry, we believe that further, holistic thinking from Ofgem about the future of network charges is required, which properly takes account of fairness (including to large industrial users), coherence, simplicity and the need to support net zero. We therefore recommend that Ofgem does not take forward changes to charge SDG TNUoS on the same basis as TG at this time.

Please contact me if you wish to discuss our response.

Yours sincerely,

Tim Collins
Business Development and Regulatory Manager
SIMEC (GFG Alliance)