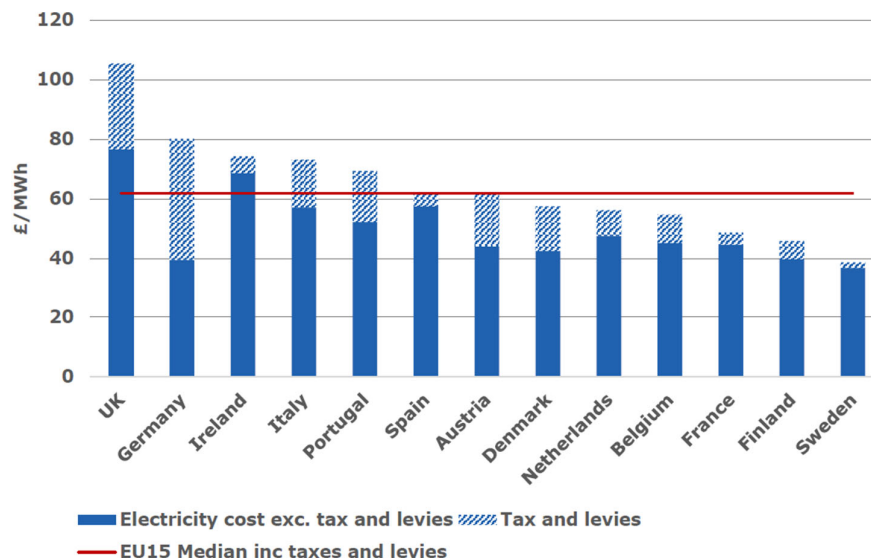


## MPA Response to Ofgem Consultation on Access and Forward Looking Charges SCR

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 530 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 and lime production, 90% of GB aggregates production, 95% of asphalt and over 70% of ready-mixed concrete and precast concrete production. In 2018, the industry supplied £18 billion worth of materials and services and was the largest supplier to the construction industry, which had annual output valued at £169 billion. Industry production represents the largest materials flow in the UK economy and is also one of the largest manufacturing sectors.

Product groups within the MPA membership have widely varying energy intensities. The cement and lime product groups are both highly energy intensive and vulnerable to carbon leakage. Formal recognition of the vulnerability is included in the European Commission's assessment as part of the Emissions Trading System which has been transferred into UK law. Increases in electricity prices add to the already high cumulative burden of energy and climate change policy and regulatory costs that these sectors face. This puts these UK sectors at a significant disadvantage to competitors in other European and non-European countries as a result of the wide disparity in prices between the UK and the lower electricity prices offered to energy intensive competitors in other countries including nearby European markets. This was highlighted in Ofgem's recent report "Research into GB electricity prices for Energy intensive Industries" as shown in Figure 2.1 from that report (shown below):

**Figure 2.1: Average electricity prices for EIIs in Europe (2016-2020)<sup>6</sup>**



Notes: data represents consumers with an annual consumption between 70-150GWh. The total for each column includes all environmental taxes and levies, and excludes VAT. 2020 data is only up to and including June 2020. There was insufficient data for Greece and Luxembourg.

Now that Ofgem's own research has confirmed evidence from industry showing the disparity between UK electricity prices and those of our closest neighbours and competitors, it is important that steps are taken to reduce UK industrial consumer prices and maintain the competitiveness of UK EIs. All Ofgem work, proposals and impact assessments must show what steps are being taken to achieve this. MPA is disappointed that, although some of the proposals set out in this access and forward looking charges consultation may be welcome, there is no clarity on the impact of the proposals on industrial electricity bills. Without this clarification, MPA and our members are not able to fully understand the impacts which is a significant omission in any transparent consultation process.

This document provides a concise response to some of the consultation questions of relevance to MPA members.

### Consultation Questions

#### 3. Connection boundary

**Question 3a: Do you agree with our proposals to remove the contribution to reinforcement for demand connections and reduce it for generation? Do you think there are any arguments for going further for generation under the current DUoS arrangements? Please explain why.**

As industry electrifies to decarbonise, reinforcements will be required. MPA understands that the cost of undertaking this at some sites is in the region of millions of pounds. MPA therefore welcomes this proposal to remove the contribution to reinforcement for demand connections. However, it would be useful to understand how this will impact electricity bills for EIs. The impact assessment notes that removing the contribution to reinforcement will result in an increase in overall system costs, which will be recovered from all DUoS customers. Many cement and lime plants are located in isolated rural locations. The impact assessment highlights that costs might be higher in such rural locations where there may be a higher frequency of reinforcement being required e.g. as onshore wind locates there, and where there is a smaller DUoS customer base from which to recover the costs. It's vital that these potential costs are known and understood so EIs, and others, can plan and budget for them, and if necessary BEIS can put in place support to ensure the competitiveness of EIs is not further undermined.

#### 4. Access rights

**Question 4a: Do you agree with our proposal to introduce better defined non-firm access choices at distribution? Do you have comments on their proposed design?**

MPA agree with this proposal, as giving consumers clarity on access choices so they can manage their demand to reduce bills is of clear benefit. However, it must be noted that not all consumers are able to be flexible with their energy consumption. Some processes, like cement and lime production, are continuous processes that operate 24/7. What is the cost impact of enabling non-firm access rights that others can benefit from, on these businesses? Is it possible for there to be equivalent benefits for businesses with a continuous energy baseload?

**Question 4b: Do you agree with our proposal to introduce new time-profiled access choices at distribution? Do you have any comments on their proposed design?**

At a high level, MPA agrees that giving users additional flexibility to profile their access rights and move away from network peaks, in exchange for reduced network charges would be of benefit to some users. However, it is difficult to assess exactly what the benefit would be

without the additional information on DUoS proposals. Further consultation should be undertaken once the DUoS proposals are known and the implications for time-profiled access understood.

As noted in the response to Question 4b above, there are some industries that are unable to respond to within-day price signals and evaluation must be made of the cost impact on industries whose demand is not flexible.

**Question 5g: Are there any specific issues you think we need to consider, as part of our work on the future role of network charges? Why are these important to consider?**

To meet the UK decarbonisation ambition, greater electrification across the economy will be required. The UK is aiming to decarbonise further and faster than others, therefore the shift to electrification must be swifter and the cost disparity with slower moving countries will increase initially. The price disparity associated with the cost of expanding electricity networks to meet the increased demand, and increased electricity consumption (and associated cost) required by industrial processes to meet 2050 net zero targets, has the potential to further damage the competitiveness of UK EIs operating in international markets. Ofgem must recognize the challenge to EIs of current high energy costs and the potential for these costs to further increase in the short to medium term unless action is taken by Ofgem and others to support EIs and mitigate this impact. Ofgem must therefore ensure that the costs associated with rebalancing of the system properly accounts for the competitiveness impacts on EIs and what these vital industries can afford to absorb internally given their trade exposure. EIs must not be penalised for doing the right thing regarding decarbonisation.

## **7. General question**

**Question 7: Do you have any other information relevant to the subject matter of this consultation that we should consider in developing our proposals?**

MPA is deeply concerned about the lack of clarity on what the reforms mean in terms of energy bills for different users. As noted at the beginning of this response, MPA represents mineral production including energy intensive cement and lime producers. Such EIs already face a cumulative burden of energy and climate change related costs, which erode their competitiveness in international markets, where competitors producing cement or lime in other countries do not face such high costs. In order to fully quantify the expected impact of these proposals on energy bills, impact assessments should provide examples of expected energy bills of various consumers, including a typical EI business. This is missing from the access and forward looking charges impact assessment, and it makes it difficult to fully understand what the impacts of the proposals will be.