

## **UK STEEL – SUBMISSION TO CONSULTATION ON ACCESS AND FORWARD-LOOKING CHARGES SIGNIFICANT CODE REVIEW**

**Date: 25 August 2021**

**To: [FutureChargingandAccess@ofgem.gov.uk](mailto:FutureChargingandAccess@ofgem.gov.uk)**

### **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 processors.

### **Submission to Access and Forward-looking Charges Significant Code Review: Consultation on Minded to Positions**

UK Steel welcomes this Consultation on Access and Forward-looking Charges Significant Code Review and looks forward to engaging with Ofgem on the reform.

**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.**

We do not believe that Ofgem has presented sufficient evidence or modelling to allow us to answer this question. Fundamentally, we would be concerned about asking existing users to indirectly pay for new connections and new users. However, we cannot estimate the impact from the consultation document, the impact assessments or the supporting documentation. It is impossible to provide an informed opinion without a complete and thorough assessment, which shows the expected impact of the proposal for an average energy-intensive manufacturer in different scenarios with various levels of new connections. The impact may be negligible, at which point, we would not oppose the proposal. However, we fundamentally do not know, and Ofgem has not provided the necessary evidence.

The only evidence presented on the impact on EIs is listed in 'Quantitative analysis of Ofgem Access Options: Connection Boundary and TNUoS SDG', Figure A.21: Impacts on large industrial and commercial non-domestic archetype consumer bills, SP. This suggests that a large EI EHV connected user would see an overall reduction but an absolute price increase. No further analysis or explanation is offered. We cannot understand what assumptions have been made, the counterfactual for the analysis, or the actual impact in £ per MWh.

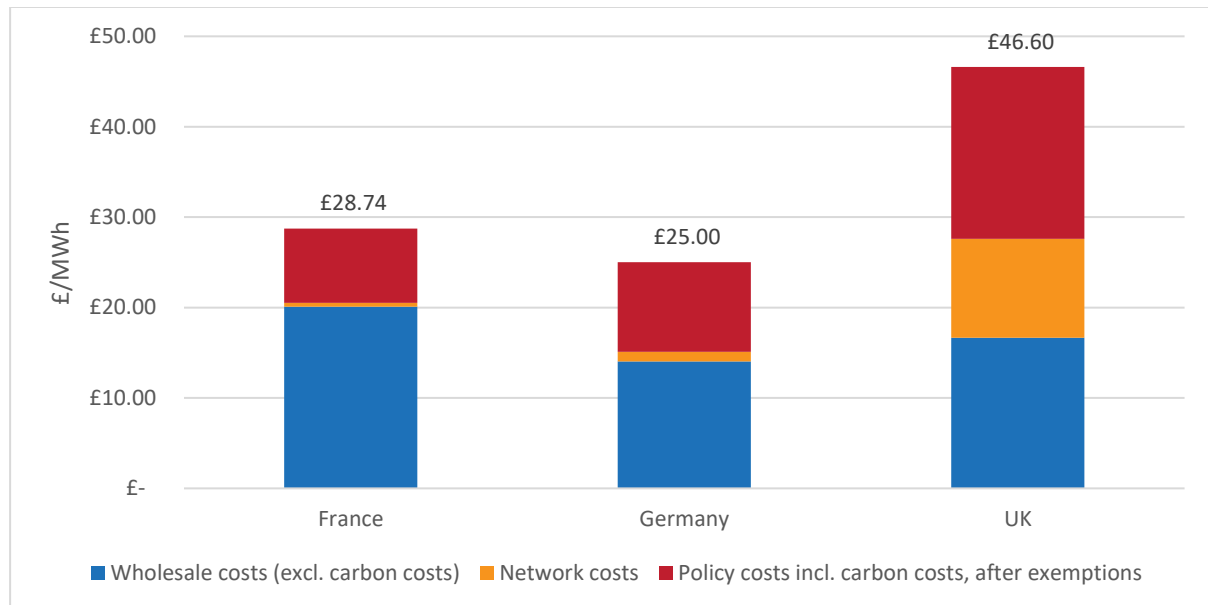
We will also question how the costs for the demand connections (and in part generation) is expected to be socialised. For example, will it be amongst all users or within each connection group (i.e. amongst EHV-connected users)?

The steel industry experiences uncompetitive industrial electricity prices. For example, UK steel producers typically face an average electricity price of £47 per megawatt-hour (MWh) in 2020/21 compared to the estimated German price of £25/MWh and French price of £28/MWh. Therefore, UK production sites pay 86% and 62% more, respectively, than their main competitors. There are several causes for the disparity, including renewable support programmes and carbon pricing, but the biggest factor is network charges. As such, we have great concerns that new reforms will increase network charges even further.

Energy prices for steel producers in France, Germany, and the UK (2020/21)<sup>1</sup>

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<sup>1</sup> It should be noted that in both cases the carbon costs from the EU Emissions Trading System (ETS) and Carbon Price Support (CPS) have been deducted from the wholesale costs and added to the policy costs (including appropriate compensations) to better reflect the true nature of the policy costs.



The price disparity directly impacts competitiveness and equates to a total additional cost to UK steel producers of around £54 million per year compared to Germany. The more insidious impact is on long-term investment. All the major steel producers in the UK are part of multi-national companies with facilities in the EU and four also operating outside the EU. In this context, the cost competitiveness of each particular market is crucial to attracting investment. Persistent cost disadvantages in the UK lead to underinvestment, which in turn leads to further erosion of competitiveness. Over the past five years, the industry has paid £256m more for their electricity than their competitors in Germany. This has made it significantly more challenging to attract investment to the UK and leads to *investment leakage*.

Therefore, we strongly urge Ofgem to provide additional modelling and assessment of the impact of the proposed reforms on ELLs. We do not believe the current presented evidence is sufficient grounds for Ofgem to consult upon.

**Question 3b: What evidence do you have on the effectiveness of the current connection charging arrangements in being able to send a signal to users and what do you think will be the effect of our proposed changes? How does this vary between demand and generation connections?**

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**Question 3c: What are your views on the effectiveness of the current arrangements in facilitating the efficient development and investment in distribution networks? How might this change under our proposals where network companies are required to fund more of this work?**

We agree that the current connection charges pose a barrier to further electrification of industrial processes; however, as above, it is not possible to provide an answer to this question without the necessary information.

**Question 3d: Do you agree whether the need to provide connection customers with certainty of price reduces the potential for capacity to be provided through other means such as flexibility procurement? How might this change under our proposals?**

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**Question 3e: What are your views on whether we should retain the High-Cost Cap? Is there a case for reviewing its interaction with the voltage rule if customers no longer contribute to reinforcement at the voltage level above the point of connection?**

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**Question 3f: What are your views on the recovery of the costs associated with transmission that are triggered by a distribution connection? Does this need to be considered alongside wider charging reforms or could a change be made independently?**

It would be natural to consider the costs associated with transmission triggered by a distribution connection, otherwise, unintended consequences could occur.

**Question 3g: What are your views on the likelihood of inefficient investment under our proposals (e.g., an increase in project cancellations after some investment has been made)? Are there good arguments for further considering introducing liabilities and securities to mitigate this risk?**

We would support the introduction of liabilities and securities to mitigate this risk and reduce overall costs.

**Question 3h: What are your views on whether the interactions between our connection reforms and the ECCRs must be resolved before we are able to implement our proposed reforms? How do you factor in the effects of the ECCRs (if at all) into decision making, given the levels of uncertainty around subsequent connectee(s)? What suggestions do you have to make our policy and the ECCRs work together most efficiently?**

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**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?**

We welcome the proposals to introduce new access choices at distribution level, however, we are again concerned that very little evidence is presented on how this will impact different user groups or how EILs can participate in such schemes.

While we understand and appreciate the need to reward flexible demand, it is less likely that steel producers will be able to participate to the extent initially anticipated. Steel producers can provide flexible electricity demand in either two forms: Sites with batch processes can provide binary flexibility (on or off demand), whilst sites with continuous processes provide non-binary flexibility (modulating demand). The sector reduces the need for system reinforcement through their flexibility, whilst their significant baseload demand raises average network demand and can increase demand if they receive signals of the grid requirement, supporting efficient network use. The demand management occurs due to the price signals received, whether wholesale market-driven or regulated system charges (TNUoS, DUoS, Capacity Market). However, the TCR reforms will remove or reduce these price signals, which may disincentivise industrial flexibility and increase overall costs for EILs.

Furthermore, steelmakers have a flatter and more predictable demand profiles than domestic users. They also consume relatively more electricity in the periods it is most helpful to the electricity grid, notably overnights and summer daytime periods. In these periods, excessively low transmission system demand drives record levels of change of frequency and constraint management expenditure by the Electricity Systems Operator (ESO). Baseload steel customers help moderate this expenditure. As evident during the first Covid-19 lockdown, an enforced and abnormal reduction in industrial energy demand led to record levels of ESO expenditure on constraints and frequency management – over £500m in the six months to Sep 2020 – out of a record total BSUoS expenditure of £835m for the same period. The network charging regime should recognise the vital contribution baseload steel producers make to moderating constraint and change of frequency costs by the ESO. There is currently no recognition of this contribution in either transmission or balancing charges. While reviewing and rewarding flexible demand is understandable, similar approaches should be taken to baseload demand, such as steel production.

**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?**

We welcome the new approaches but again would request more information on how these could be implemented. For example, it is not clear from the proposals what is defined by “peak times” or industrial users can participate. We would urge Ofgem to provide additional analysis of the impact of the *Access and Forward-Looking Charges Significant Code Review* on EILs to enable industry representatives to fully engage with the consultation.

**Question 4c: Can you identify any benefits to shared access rights, which would indicate we have underestimated the likely take-up?**

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**Question 4d: Do you have any comment on our proposed choice about how to reflect access rights in charges (i.e. connection and/or distribution use of system charges)?**

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**Question 4e: Do you agree with our proposal to not prioritise the introduction of new transmission access choices as part of this Significant Code Review?**

We do not agree. We do not see why the opportunities for non-firm access rights should not be extended to transmission-connected users, who will see some of the highest charge increases due to the TCR reforms.

**Question 4f: Do you have views on how access rights should be standardised across DNOs?**

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**Question 4g: Do you have any views on our proposed timescale of 1 April 2023 implementation?**

Considering the experience of the TCR process, it does seem highly ambitious of Ofgem to believe that implementation in 2023 is feasible. In our response to the above questions, we have highlighted the lack of information about how the proposed reforms will impact electro-intensive industries and have requested that Ofgem provide additional modelling and evidence to support its proposals. As such, further consultation and engagement would be needed, which would necessarily delay the implementation date.

**Question 5a: Do you have any evidence that SDG does not contribute to flows in the same way as large generation and, therefore, should not be charged on a consistent basis?**

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**Question 5b: Do you agree with our threshold for applying TNUoS generation charges of 1MW? If not, what would be a better threshold and why?**

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**Question 5c: Do you have any evidence that distribution connected generation at a grid supply point has a different impact than directly connected generation?**

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**Question 5d: Do you have a preference for one of our options for addressing the local charging distortion? If so, please indicate which option and provide your reasons. Are there any options we have missed?**

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**Question 5e: Do you support our position that we should consider transitional arrangements? If so, do you have a preferred option and evidence to support the benefits or risks associated with each option?**

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**Question 5f: Have we identified all the options for administering TNUoS generation charges for SDG? If not, what options have we missed, and why would they be preferable to those we have identified? Can you provide any evidence regarding the implications of the different administrative options for your business?**

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**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?**

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

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**For further information, contact:**

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