

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

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

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### **About EIUG:**

The Energy Intensive Users' Group (EIUG) represents the UK's energy intensive foundation industries, including manufacturers of steel, chemicals, paper, glass, cement, lime, ceramics and industrial gases.

Our members produce materials which are essential inputs to UK manufacturing supply chains. This includes materials which support climate solutions in the energy, transport, construction, agriculture and household sectors. We make a combined annual contribution of £38bn<sup>1</sup> to UK GDP, supporting 200,000 jobs directly and 800,000 jobs indirectly.

However, as foundation industries, we are both energy and trade intensive. We are also largely internationally owned. If we are to compete in the global markets in which we operate and remain located and investing in the UK, we need access to secure, internationally competitive energy supplies and freedom to export to our neighbours without tariff barriers.

### **Response:**

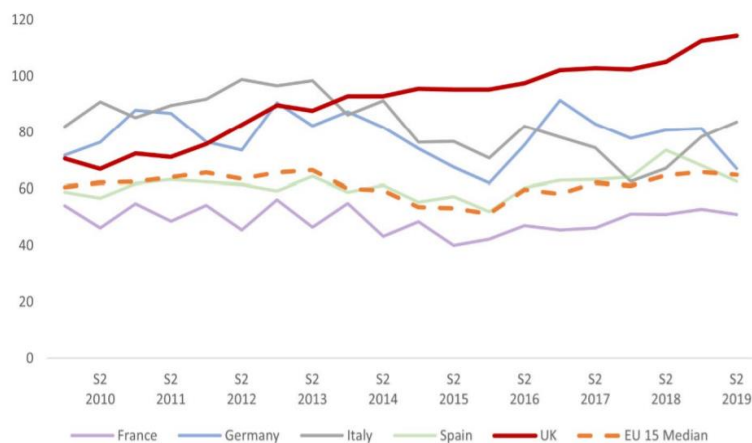
EIUG welcomes the opportunity to comment in response to these proposals. As indicated above, competitively priced energy plays a crucial role in the ability of UK Energy Intensive Industries (EIIs) to be internationally competitive (and manage their role & contribution to the energy transition). However, UK EIIs have faced and continue to face energy costs that are significantly higher than those of their international competitors.

The scale of the price differential faced by UK EIIs compared to their international competitors has recently been recognised by BEIS in its consultation on a scheme to compensate energy intensive industries for indirect emission costs in electricity prices.<sup>2</sup> This graph from the document illustrates the operating cost disadvantage impacting UK EIIs.

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<sup>1</sup> <https://www.ons.gov.uk/economy/grossdomesticproductgdp/datasets/ukgdpolowlevelaggregates>

<sup>2</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/993369/eii-ets-cps-consultation.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/993369/eii-ets-cps-consultation.pdf)



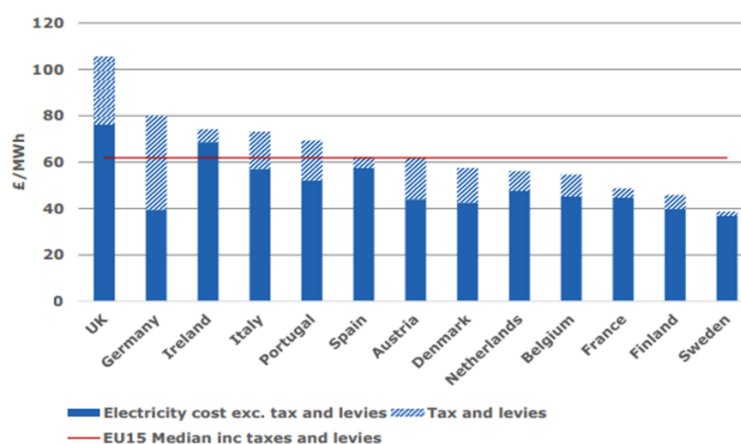
**Figure A: Trends in electricity prices for extra-large industrial consumers in selected EU countries (£/MWh)**

Source: *Energy Intensive Industries Review of the schemes to compensate energy intensive industries for indirect emission costs in electricity prices*, BEIS, June 2021, see p14

It is worth noting that in its response to the BEIS consultation, EIUG emphasized that the UK's uncompetitive energy costs are a significant factor in 'carbon leakage', ie. production shifting abroad to various other international locations and a subsequent increase in imports. Importantly, nearly all the EIUG member sites operating in the emission trading system have been identified as vulnerable to carbon leakage in the assessment carried out by the European Commission.

EIUG is pleased to see that Ofgem recently conducted its own analysis into the energy costs faced by UK EIIs<sup>3</sup>, which adds to the body of Government, regulator and industry evidence that delivered energy costs are adding to the cumulative burden for the sector.

**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.

Source: *Research into GB electricity prices for Energy Intensive Industries*, Ofgem, July 2021, see p8

<sup>3</sup> <https://www.ofgem.gov.uk/sites/default/files/2021-07/Final%20report-%20Research%20into%20GB%20electricity%20prices%20for%20EnergyIntensive%20Industries.pdf>

Ofgem's research proceeds to state three main factors that explain the higher energy prices faced by UK EIs. In addition to the impact of the UK generation mix on wholesale prices and wider policy costs, Ofgem's own conclusion is that high UK network charges for EIs represent a significant cost differentiator. Consequently, the Access and Forward-looking Charges SCR is of vital importance to EIUG and its members as it represents an opportunity for a partial reduction in the energy cost gap with important competitor countries, where EIs are offered significant relief from network costs in favour of a socialised approach.

It is, therefore, hugely disappointing that the impact of the proposals on the EI sector doesn't feature in this consultation document. Given that Ofgem's own analysis has highlighted the impact of network charges on the costs of UK EIs (and thus their international competitiveness), it would be reasonable to expect the SCR proposals to have quantified the impact, as well as providing a means for mitigating that impact so that the network cost disparity already identified by Ofgem is not worsened by the new proposals.

Notwithstanding that point, taken on their own, Ofgem's proposed changes in relation to connections, charging and access rights appear steps in the right direction. Delaying the application of TNUoS charges to small distributed generation subject to a wider TNUoS review is a practical step; while a review would add to short-term uncertainty, importantly, it would also allow for a more transparent and thorough analysis of the impact of changes on EIs.

Unfortunately, it is not possible to comment much further and give Ofgem's proposals complete support or even provide a more informed view, at least not at this stage, for several reasons. Quite simply, there is not enough information or analysis available for UK EIs to work out what the proposals in relation to connections and access rights mean for them and how they interact with the impact of the recent Transmission Charging Review.

For example, question 3a asks: **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.**

At first glance, this proposal is to be welcomed, especially for demand connections. The reduced costs of new connections and/or upgrades would be helpful for the increased electrification required for decarbonisation of some EI industrial processes.

A caveat is that the consultation document then acknowledges that such a policy will result in a revenue shortfall to be recovered from other system charges. EIUG would have expected further information on this point. However, the consultation document provides little by way of evidence or modelling of the subsequent impact on DUoS charges. It is, therefore, not possible to determine the impact on individual EI sites or the scale of the distributional impact amongst both existing system users and different consumers, including EIs – both key issues for our members.

The same observation could be made in relation to Questions 4a and 4b:

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

**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 face value, introducing access choices based around different levels of firmness or time-profiling are welcome developments. For network operators, they represent a more efficient use of the network, reduce the need for system reinforcement and so can help minimise overall costs for system users and consumers.

For EIs, non-firm access rights can also offer optionality in managing both costs and demand (including participating in load shedding services). However, this will not be true for all EIs, given that some have relatively inflexible energy consumption needs - many industrial processes are continuous processes that operate 24/7.

Nevertheless, access products of varying non-firm rights will clearly be of benefit in many circumstances. However, EIUG can't give complete support to or provide a definitive view on the proposals in the consultation document including their likely uptake without considerably more evidence in several areas.

For example, how will the pricing of the different access products – including firm access – be determined and compare to each other? Will all system users have access to the same products, or will some be unavailable in certain locations? These are crucial issues that need to be addressed to enable UK EIs to value one access product versus another.

The design of the various non-firm access rights is also a crucial issue. In short, they must be designed with consideration of the growing future need to provide distribution grid services and/or the ability to respond to market price signals in mind – important issues in the context of the development of local energy and flexibility markets.

EIUG disagrees with Ofgem's proposal not to extend the development of non-firm access rights to include transmission connected users. There would have been a reasonable expectation on the part of many system users and consumers that the SCR would help mitigate some of the impact of the Transmission Charging Review. EIUG would, therefore, urge Ofgem to reconsider this proposal.

Finally, with regards to time-profiled access choices, while EIUG welcomes the proposals in principle, more information is required. To help facilitate the involvement of industrial consumers, it will be crucial, for example, to know the definition of 'peak'.

Looking forward, EIUG would question the proposed implementation date of 1<sup>st</sup> April 2023 (Question 4g). The current lack of information and detail in the proposals make this date extremely challenging. Moreover, another issue to consider is that the proposals and their impact on different system users and consumers will be subject to the uncertainty and implications of prospective DUoS and TNUoS Charging Reviews.

Ofgem should, therefore, consider the advisability of delaying implementation of these proposals, possibly until these reviews have taken place. The intervening period could be used to engage with and understand better the needs of UK EIs, a process that could help inform the nature of the final proposals in all areas.