

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

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About EIUG:

The Energy Intensive Users Group (EIUG) is an umbrella organisation that represents the interests of energy intensive industrial (EII) consumers. Its objective is to achieve fair and competitive energy prices for British industry.

The EIUG represents EII's including manufacturers of steel, chemicals, fertilisers, paper, glass, cement, lime, ceramics, and industrial gases. EIUG members produce materials which are essential inputs to UK manufacturing supply chains, including materials that support climate solutions in the energy, transport, construction, agriculture, and household sectors. They add an annual contribution of £29bn GVA to the UK economy and support 210,000 jobs directly and 800,000 jobs indirectly around the country.

These foundation industries are both energy and trade intensive – remaining located & continuing to invest in the UK and competing globally requires secure, internationally competitive energy supplies and freedom to export without tariff barriers. However, inward investment, growth and competitiveness have been hampered for years by UK energy costs higher than those of international competitors. In some cases, investment, economic activity & jobs have relocated abroad, leading to a subsequent increase in imports.

Response:

EIUG welcomes the opportunity to comment in response to these proposals. As indicated above, secure supplies of competitively priced energy plays a crucial role in the ability of UK Energy Intensive Industries (EII's) to be internationally competitive (and manage their role & contribution to the energy transition). However, UK EII's have faced and continue to face energy costs that are significantly higher than those of their international competitors. Information on this was set out in the EIUG response to the June 2021 consultation.

EIUG was disappointed with the lack of impact assessment in the June 2021 consultation on the costs faced by EII's of the access and forward-looking proposals. These reforms need to be seen collectively with TCR and other network reforms and a clear understanding is required of the competitiveness impacts they could have on UK businesses in comparison with their near competitors. It is disappointing that this further consultation has been published without this supporting impact assessment. As a regulator, which has a duty to address adverse impacts on all of

consumer groups, Ofgem must take action to minimise any adverse competitiveness impacts of its decisions and as a minimum justify how its decisions affect industrial competitiveness.

Consultation questions on distribution connection charging boundary proposals

Question 2a:

- i. **Do you believe that it is necessary to introduce a High Cost Cap (HCC) for demand, and to retain one for generation?**

Many options for the decarbonisation of energy intensive industries (EIs) will require access to increased grid capacity. To enable this decarbonisation, adequate and competitive grid connections need to be available and supported otherwise policy and incentives are contradictory. Under the current system, some sites have been quoted millions of pounds for capacity increases. EIUG therefore welcomes the proposal to shift towards a shallower connection regime where the costs of network upgrades are shared across all customers. However, as recognised in the 2021 Ofgem report into electricity prices for EIs¹, GB industrial energy prices are significantly higher than those faced by competitors in other countries. Network costs are identified as being a contributing factor to this disparity, with GB costs being higher than those in France, Germany and the Netherlands because these countries apply network cost discounts for eligible EIs. The shift to the proposed shallower connection, is welcome but it must be recognised that it will also add cost onto EI DUoS billpayers. Consequently, EIUG welcomes the consideration that Ofgem has given to the potential impact that the shallow connection proposed, could have on DUoS billpayers.

Unlike generation, the majority of large industrial sites are fixed in their geographical location. Where the High Cost Cap on generation has served as a useful tool to deter generation connections where the cap would be exceeded, industrial sites do not have the luxury of moving the site to a cheaper connection location. EIUG therefore remains concerned that introduction of a HCC on demand could act as a barrier to decarbonisation. This is not to say that a HCC won't work, but a balance will need to be found whereby the HCC level does not disincentivise industrial sites from electrifying but also where excessive costs are not passed on to DUoS billpayers (and thus increase network costs for EIs). For this reason, EIUG strongly welcomes any HCC being kept under regular review and that these reviews should consider whether any industrial sites have been prevented from increasing their connection capacity due to the level of the HCC.

- ii. **Do you believe that our proposals to do so represent sufficient and proportionate protection for DUoS billpayers against excessively expensive connections driven reinforcement?**

See response to i). above.

¹ "Research into GB electricity prices for Energy Intensive Industries", July 2021, Ofgem

- iii. **What are your views on retaining the current ‘voltage rule’ to determine whether the HCC is breached (ie considering the cost of reinforcement at the voltage level at point of connection and the voltage level above)?**

No comment.

- iv. **What are your views on the principles we have proposed to determine an appropriate HCC level for demand, including the potential for this to be set at a different level to generation under these principles?**

As set out in answer to i). above, the HCC on demand would need to be set at a level that doesn't prevent industrial sites, that are fixed in their geographical location, from electrifying to meet decarbonisation ambitions. Further analysis is required, but EIUG believes that this may need the HCC for demand to be set at a different level to that for generation.

Question 2b: What are your views on our proposals to maintain the requirement for three-phase connection requests to pay the full costs of reinforcement, in excess of Minimum Scheme (ie lowest overall capital cost)?

EIUG believes that the majority of EII sites looking to electrify would be doing so to increase their capacity. EIUG therefore agree with the proposal to maintain the current requirement that three-phase connection requests, which can be high cost, do not get passed to DUoS billpayers but the customer making the request is instead required to pay the additional cost themselves.

Question 2c:

- i. **Do you agree with our proposals to maintain the current treatment of speculative connections and is there a need for further clarification on the definition of speculative connections?**

EII network capacity increases are likely to occur as a result of large decarbonisation investments in technologies such as hydrogen production or carbon capture. It is currently unclear how the timing of deployment of such projects on site will work and how the network capacity increase will fit into that. It could be envisaged that to ensure capacity increases are in place before contracts for financial support are signed, then EII's will be required to make speculative connections. As more information is made available on how such financial support contracts will work, EIUG would be interested in working with Ofgem to ensure that such situations don't fall under the category of speculative as placing the full cost on the EII may deter these vital investments. Alternatively, if such connections remain speculative, cost recovery through financial support e.g. CCUS business models, may be required.

- ii. **Do you agree that our wider connection boundary proposals broaden the disparity between connections deemed to be speculative versus non-speculative? If so, do you believe this needs to be addressed and how?**

As noted in answer to 2ci above, it is important that the type of connection deemed speculative is narrowed so as not to include EII's that need electricity capacity increases in place before signing support contracts for technologies such as hydrogen production or CCUS.

Question 2d: Do you consider that our proposed DUoS mitigations (a demand HCC, and retaining reinforcement payments for three phase and speculative connection contributions) present a cohesive package of protections for DUoS billpayers? Do you consider these proposals to interact in any way that could counter their effectiveness, and if so, how?

As noted under question 2a above, EIUG welcomes the consideration on how to mitigate high costs being passed on to DUoS billpayers. However, it is difficult for EIUG to fully determine if the package will provide a cohesive protection or not without a full impact assessment on EII DUoS billpayers.

Question 2e: Do our updated proposals to treat storage in line with generation for the purposes of connection charging simplify charging arrangements for these sites and better align with the broader regulatory and legislative framework?

No comment

Question 2f: Do you agree with our proposals regarding the treatment of in-flight projects (ie that they should not be permitted to reset their connection agreement and retain their position in the queue), noting they retain the right to terminate and reapply from 1 April 2023 should they wish to be treated under the proposed connection charging boundary?

No comment

Question 2g: Do you agree with our proposals to retain the existing arrangements for managing interactive applications? Do you agree with our proposals on the treatment of unsuccessful applicants (that the connection charges at original application date will continue to apply if queue position is retained)?

No comment

Question 2h: Do you agree with continuing with the definition of the Minimum Scheme as currently set out in the CCCM? Do you believe this definition requires any further clarification or amendment, and if so, why?

No comment

Question 2i: Are there any risks associated with our proposals to allow current non-firm connected customers to seek a firm connection following the changes proposed by our SCR? Do you agree that existing non-firm connected customers that do seek a firm connection should be processed through existing queue management processes as determined by DNOs?

EIUG agree that all customers should be treated in the same way, whether they are seeking a new connection or a firm connection.

Question 2j: How necessary do you consider Ofgem intervention in Electricity Distribution Standard Licence Conditions 12, 15 and 15A? What duration might such measures be needed, or acceptable, following 1 April 2023? What value do you place on certainty of connection timeframes compared with time to connect?

For some EII sites, the need for capacity increases could be associated with the deployment of, for example, carbon capture plant on site. Under CCUS business models, the site is likely to be

contractually bound by BEIS to get the project deployed and running within a certain timeframe. If these time frames are not met, BEIS can terminate the contract and therefore remove financial support for the project. Certainty over timeframes for connection in such cases will be vital. If these timeframes are longer than those currently acceptable then this must be signalled well in advance so that this can be taken into early consideration in CCUS support contract negotiations.

Question 3a: Do you agree with our proposal to exclude customer interruptions and transmission constraints from the definition of curtailment with respect to distribution network access arrangements?

No comment.

Question 3b: Do you agree that the curtailment limit should be offered by the network based on maximum network benefit and agreed with the connecting customer?

No comment.

Question 3c: Do you have any views on the principles that should be applied to ensure curtailment limits are set in a consistent manner?

No comment.

Question 3d: Do you agree with our proposal not to introduce a cap for flexibility payments made should any curtailment in excess of agreed limits be required?

EIUG agree with this proposal.

Question 3e: Do you agree with our proposal to introduce explicit end-dates for non-firm arrangements? Are there any mitigations for DUoS billpayers we should consider?

EIUG agree with the introduction of explicit end-dates for non-firm action providing customers that are happy with a non-firm connection can keep it without being required to make it a firm connection.

Question 3f: Do you have views on whether the end-dates should take into account only current known or likely works, or if it should allow time for wider developments to take place?

No comment.

Question 3g: Do you have any comment on our proposal not to further define or standardise time-profiled access arrangements?

EIUG welcomes the proposal to enable flexibility around time-profiled access arrangements, particularly where this can be used effectively to reduce DUoS costs and potentially enable quicker connections to the network. The main caveat to this is that such flexibility must not come at an additional cost to those network users that are unable to take the opportunity of time-profiled access tights because they operate continuous processes that run 24/7.

Question 5a: Has the additional information in this consultation affected any of the views you previously submitted in response to our June 2021 consultation (if so, in what way)?

No change to the previous response that EIUG submitted.

Question 5b: Do you have any other information relevant to the subject matter of this consultation that we should consider in developing our proposals?

EIUG is disappointed that both previous June 2021 consultation document and this updated version 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 EII sites or the scale of the distributional impact amongst both existing system users and different consumers, including EIs – both key issues for our members. This makes it very difficult to understand what the change to DUoS billpayers might be or how any of the proposed mitigations to reduce this cost may help.