MPA Response to Ofgem Policy direction for the Future System Operator's regulatory framework

The Mineral Products Association (MPA) is the trade association for the aggregates, asphalt, cement, concrete, dimension stone, lime, mortar and industrial sand industries. With the merger of British Precast, and affiliation of the British Association of Reinforcement (BAR), the British Calcium Carbonate Federation, the Cement Admixtures Association (CAA), CONSTRUCT, Eurobitume, MPA Northern Ireland, MPA Scotland and the UK Quality Ash Association (UKQAA), it has a growing membership of 520 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 2021, the industry supplied £22 billion worth of materials and services to the economy. It is also the largest supplier to the construction industry, which had annual output valued at £178 billion. Industry production represents the largest flow of materials in the UK economy and is also one of the largest manufacturing sectors.

The MPA represents two energy intensive industries, cement and lime. Cement is used to make concrete, which is an economically significant and major part of the wider UK mineral products sector. Concrete is essential for our economy, homes, buildings, infrastructure and quality of life. The UK lime industry provides the hidden ingredient for the essential products of everyday life. Lime is used in a wide range of applications, from drinking water purification and iron and steel manufacture to environmental remediation and emissions cleansing.

Consultation Response

Q1) Do you have any views on our proposed financial regulatory framework for the FSO?

The UK Government has recognised that existing network charges, used to fund the ESO and its work have rendered UK energy intensive industries uncompetitive in international markets. As a result, the Department for Business and Trade has introduced a compensation scheme for sectors like cement and lime, as part of the British Industry Supercharger. In setting up the FSO it is vital that network costs don't escalate. The shift to the FSO being a not-for-profit entity is therefore tentatively welcomed but visibility of the charges will be important to enable consumers, especially EIIs to plan and budget for network related costs. The charging of the FSO costs to consumers should therefore be clear and transparent. It should also consider our points in question 2 in relation to acting in the interests of all consumers and the international competitiveness of energy intensive industries such as cement and lime.

Q2) Do you have any views on our emerging thinking on how we should regulate the FSO, including our objectives, the case for change, and potential future options?

The MPA broadly agrees with the objectives for FSO regulation set out in the consultation document.

However, the UK cement and lime sectors are at risk of carbon leakage (the movement of production and associated emissions from one country to another due to different levels of decarbonisation effort through carbon pricing and climate regulation) and investment leakage (that multinational companies will choose to make future investments in cement plants outside the UK, which often precedes carbon leakage).

The UK cement sector is already facing negative impacts on its international competitiveness as a result of higher UK energy costs and disparity in global carbon costs. Imports, which were steadily increasing their UK market share, have accelerated in the last two years to the extent that in 2022, imports made up 30% of the UK cement market.

The consultation states: *"One of these duties will be for the FSO to have regard to the strategic priorities in the government's Strategy and Policy Statement (SPS). These changes will mean the FSO's overall objectives are more inherently aligned with consumer interests and wider energy policy aims than under the status quo."*

In the MPA's response to the Government's draft strategy and policy statement we highlighted that it does not include the important strategic priority and policy outcome of the risk of carbon leakage.

Thus, the MPA is concerned that the FSO will prioritise the interests of domestic consumers to the detriment of industrial consumers. It is vital that the FSO acts in the interests of all consumers, including energy intensive industries, and not just domestic consumers. If the focus is on domestic consumers and costs placed on industry then it leads to the situation where the government must intervene and implement supportive policies and mechanisms to maintain competitiveness between the UK / GB and other countries.

Q3) What role should industry stakeholders and external parties have in holding the FSO to account, and what platforms are needed to achieve this?
The generally good engagement by ESO and GSO with industry should continue. A particularly strong example are discussions about changes to the gas demand flexibility scheme between National Grid Gas and gas intensive sectors, which have been particularly welcome. The approach taken enabled consumers to engage without needing to understand the complexities of gas governance code changes.

There will need to be increasing interactions with different organisations than historically if the remit of the FSO expands to say include hydrogen and the transport of carbon for CCS.

Q4) Do you have any views on our approach to implementing changes?
No comment.