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Ofgem Open Letter on Charging Arrangements for Embedded Generation

The Confederation of Paper Industries (CPI) represents the UK paper industry and covers the sourcing and supply of raw material, the manufacturing and converting of paper, tissue & board and also the production of paper packaging. CPI represents an industry with an aggregate annual turnover of £6.5 billion with 25,000 direct and more than 100,000 indirect employees. Members range in size from large multi-national organisations with multiple sites in the UK to single site SMEs.

CPI is responding to Ofgem's open letter of 29 July 2016 on the subject of changing the charging arrangements for embedded generation.

There are 45 paper mills in the UK manufacturing paper products utilising recovered paper and/or woodpulp as feedstocks. Papermaking is energy intensive and requires significant amounts of heat and electricity and therefore Combined Heat and Power (CHP) is an ideal fit for the sector. The sector currently has 14 CHP installations (fuelled by biomass and/or natural gas) and almost all can export to their local distribution network. Electrical capacity of these CHP totals some 320 MW and some 90% of this is classified as being of "good quality" by the CHPQA scheme. Although some mills export very little electricity during the normal course of operations others actively seek to maximise their generation and plan to export to the local DN at times of system stress.

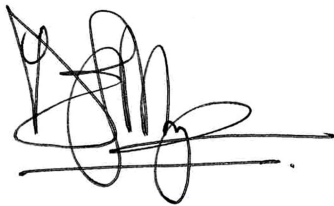
Those CHP-equipped paper mills that choose to maximise generation and export at predicted Triad periods have to disoptimise their papermaking operations significantly. The cost of this disoptimisation is large but is covered by their share of the TNUoS demand residual benefit that is remitted to them by their DNO and this payment includes an element of reward thus incentivising this mode of operation. If the demand residual benefit for existing generators is curtailed then some of these operators may choose not to maximise generation at times of system stress with an obvious knock-on effect on the ability of the local DNO to satisfy customer demand. One large paper sector CHP operator has already told us that they simply would not change their operational mode if they lost the benefit and it is reasonable to assume that the others would take a similar view. Furthermore, although we can understand the desire of Government to discourage the rapid increase in new diesel farms under the provisions of the Capacity Market, curtailment of the demand residual benefit for new distribution-connected generators would mean that the economic case for new industrial CHP would change and this might affect the viability of such investment.

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It may well be that the predicted increase in the demand residual payment under the current system is inequitable but simply removing this benefit without a full review of the wider implications of such a move is not a good solution and could reduce the ability of the transmission and distribution networks to satisfy peak demand.

We believe that Ofgem should carry out a full review of the system for recovering transmission costs including the impact and efficacy of the embedded benefits regime to ensure the impacts on all participants (including industrial embedded generation) is properly analysed and assessed. This would then be a sound basis on which to propose reforms to better deliver value for consumers.

Yours sincerely

A handwritten signature in black ink, appearing to be 'DM', with a horizontal line drawn through it.

David Morgan
Energy Data Manager