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Tata Steel response to Ofgem's consultation on the Targeted Charging Review (TCR): minded to decision and draft Impact Assessment

Introduction

Tata Steel responds as an energy intensive user with manufacturing and steelmaking sites across the UK. We have sites connected across a range of voltage classes and our Port Talbot site has significant power generation assets.

Our submission supplements those from our industry bodies, UK Steel and the Energy Intensive User Group (EIUG).

About Tata Steel

Tata Steel operates in 26 countries, with a commercial presence in over 50 countries and with employees across five continents. Tata Steel Europe is a leading supplier of strip-based steels, with steelmaking operations in both the Netherlands and the UK. In the UK, our largest installation and main production hub is in Port Talbot, at which we make approximately 3.8M tonnes of steel each year from primary raw materials such as iron ore and coal (so-called integrated steelmaking). Elsewhere in the UK we have significant operations in and around Newport (Llanwern and Orb Works), Llanelli (Trostre Works), Deeside (Shotton Works), Hartlepool and Corby where we apply further processes to our steel such as coating and plating to produce world-class products for sale into the automotive, packaging, building envelope and electrical supply sectors.

We are a responsible and responsive company. As such, we believe in making a positive contribution to society through the jobs we provide and the secondary economy we support. Our corporate focus is on optimising our current processes whilst making substantial investments in R&D to deliver a step-change in the carbon-intensity of steelmaking.

At the same time, we are developing innovations which are making a significant contribution to helping the rest of the economy to decarbonise. To maximise their impact, these advances require close collaboration between businesses and policy-makers. Within this context it should be stressed that UK steelmaking is already at an international disadvantage because of electricity prices¹. The advancement of low carbon processes will not be commercially viable if this pricing disparity persists.

¹ UK Steel, 2018, The Energy Price Scandal: A Fair Power Deal For UK Steel; Aldersgate Group / Imperial College 2018, Delivering Competitive Industrial Electricity Prices in a Low Carbon World

Power generation capability has been integrated into the Port Talbot site for over fifty years and is not an 'optional extra'. Our current power generation assets consist of steam turbine technology which generates power primarily from waste process gas. The use of waste gases for the production of electricity is unique to specific steelmaking conditions: waste gases cannot be stored due to their huge volume and need to be combusted regardless of the electricity market's demand. Through Ofgem's network reform we need to consider how our integrated power generation assets can continue to contribute to the electricity system. Simultaneously we must seek to avoid a scenario in which the cumulative impacts of network reform make a significant negative impact on our overall energy costs.

As an energy user and market participant, we acknowledge that our commercial response can contribute to lowering our compound electricity costs and support in providing balance to the GB electricity system. Where possible, we respond dynamically to electricity market price signals by altering production and boosting generation.

Our largest load management response has historically been through winter when we have successfully managed demand to avoid peaking wholesale prices and transmission costs. Despite these activities, we still find our electricity costs significantly higher than those of our peers and competitors in mainland Europe. UK Steel calculates that UK steel producers already face electricity prices that are twice those of their direct competitors in France and 50% more than German steel producers. This is in part due to the network cost exemptions enjoyed by our European competitors.²

Response to Ofgem's Targeted Charging Review

We have engaged with Ofgem's process through membership of the Charging Futures Forum, through representations via industry groups including the EIUG and UK Steel, and in consultation and cooperation with our power distribution network operator in South Wales.

Tata Steel recognises the need for reform of residual charging and respects Ofgem's difficult role in these complex and interconnected network reviews. In our opinion, however, the outcomes identified in Ofgem's TCR draft impact assessment are too uncertain. The overriding issue for Tata Steel is that the impact from the TCR on our energy costs cannot be measured independently of the other areas of network reform. In the absence of a coherent and consolidated view of these other reforms, the TCR proposals constitute an unquantifiable risk for our organisation. We also need a consolidated view of how our use of integrated power generation assets will be impacted by network reform to ensure that the reform itself does not have a negative impact on our compound electricity costs and to enable us to prepare as necessary for future network arrangements.

We see a number of sources of uncertainty:

- That the full TCR reform will develop through open governance prior to implementation. Many of the underlying assumptions included in the TCR draft assessment are subject to significant change which may negatively influence cost outcomes for Tata Steel;

² CREG/PWC, "A European comparison of electricity and gas prices for large industrial consumers - 2018 update;

- TCR outcomes are highly sensitive to shifting methodology including, for example, the allocation of fixed charges at site or MPAN level, the granularity of charges for EHV connected sites, review and re-setting of domestic deemed capacity and removal of generation sites from EDCM charging allocation;
- Crucially, the TCR draft impact assessment does not provide a cumulative understanding of the cost impact of parallel reforms, in particular Ofgem's Significant Code Review addressing 'Network Access and Forward Looking Charging' (AFLC). We understand AFLC will largely set the scale of residual costs and establish how our current load management activities will be rewarded.

The range of variable factors is therefore such that we must conclude that, without amendment, the TCR process has the potential to generate radically different cost outcomes from those indicated in the TCR minded to documentation.

For the above reasons, we would ask Ofgem to reconsider resetting the pace and order of network charging reform so that the TCR can run a staged programme in conjunction with AFLC. This modified approach would attract greater support from a majority of consumer groups and market participants. It would also be more susceptible to cumulative measurement, steady reform and yield greater certainty over outcomes.

On behalf of Tata Steel

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