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Andy Burgess
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24 September 2019

Dear Andy

Targeted Charging Review Refined Residual Charging Banding Consultation

The Confederation of Paper Industries represents the UK paper manufacturing sector and covers the supply chain for the industry from collection of paper for recycling through sorting and papermaking to conversion into final products. We have 46 paper mills in the UK and these are energy-intensive installations consuming some 3 TWh of electricity annually; the larger ones have CHP (since papermaking is a good fit for this technology) and so less than 2 TWh of electricity is supplied by the networks to our sites. We also have more than 100 smaller paper converting sites which are not energy-intensive, but which rely on electricity for their operation.

Comments on the Open Letter

CPI is disappointed that the Refined Proposal as outlined in the Open Letter of 3 September has not been delivered with sufficient – indeed, any - regional charging detail to allow us to make a reasonable estimate of the cost impact on our sector. Even if we had this detail, the short timeframe for response also mitigates against a detailed analysis of the Proposal.

Drawing very broad conclusions, it appears as if the Refined Proposal, compared to today's situation, will result in huge residual cost increases for mills which have invested in self-generation through CHP. These cost increases could be several hundreds of per cent in magnitude and could have such an impact on site operating costs that they would be difficult for a business to respond to. If such large cost increases are to be levied we would ask that provision is made for a phase-in period of, say, 3 years.

The decision to charge industrial sites having self-generation and those without such facilities equally is grossly unfair and charging self-generators in this way does not accord with the principle of "fairness for all". The concept that all users should pay their share of residual charges if they wish to be connected to the network is logical. However, not differentiating between users who are connected because they require all their electricity to be supplied through the network and users who have invested in CHP and who therefore generate on-site and only require the network connection for an emergency supply, or to cover scheduled maintenance, is inappropriate. The way the latter category of industrial site operates is very different from a typical energy consumer and this should be recognised, especially in cases where such sites export

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to the network at times of need and help manage local shortfalls to the benefit of the network and other consumers.

CHP is recognised as BAT in the pulp and paper industry and Government has supported investment in this form of decentralised generation in industries where this technology is relevant. CHP is vitally important to us – some 80% of the paper manufactured in the UK is made at the 15 paper mills having CHP; for our sector this is almost all gas turbine or biomass-based technologies. The electricity generated forms more than 40% of the 3,000 GWh consumed by our sites annually. 500 GWh of CHP-generated electricity is also exported to local distribution networks, supplementing that sourced by them from the transmission system.

Financial incentives for constructing and operating CHP have been reduced and removed over the past few years (e.g. removal of LECs, reduction in embedded benefits) which seem to be self-defeating policy changes which are in direct contradiction of Government's stated policy of support for high efficiency co-generation. It seems perverse that the proposed allocation of a residual charge for use of the transmission network could mean that industrial CHP is not built or not replaced – thus leading to a greater requirement to reinforce the same transmission network at consequent increased cost.

It also seems to us that the Refined Proposal is more complex – both in concept and in detail - than the original minded to "Fixed Charges" proposal based on LLFCs. The cost increases imposed on our larger CHP sites under this original proposal were of much lower magnitude than those that will result from the Refined Proposal – and so would have been more acceptable to us (I could characterize this by saying "we might accept that CHP sites should pay more but not suffer a hugely disproportionate increase in charges"). Both the original "minded to" proposal and the Refined Proposal appear to meet Ofgem's project success criteria so given the choice, CPI would prefer a reversion to the original "minded to" proposal as the way forward on residual charging reform.

Yours sincerely

A handwritten signature in black ink, appearing to read "M. A. Large", is positioned below the "Yours sincerely" text.

Andrew Large
Director-General