



Please use this Pro-Forma when responding to the Interim Report and Consultation of the second Balancing Services Charges Task Force.

The Taskforce will take all responses into its consideration when producing the final report. When providing a response please supply a rationale, particularly in respect of any specific questions detailed below.

Please send your responses to chargingfutures@nationalgrideso.com by 5pm on **26 August 2020**. Please note that any responses received after the deadline or sent to a different email address may not be taken into account by the Taskforce.

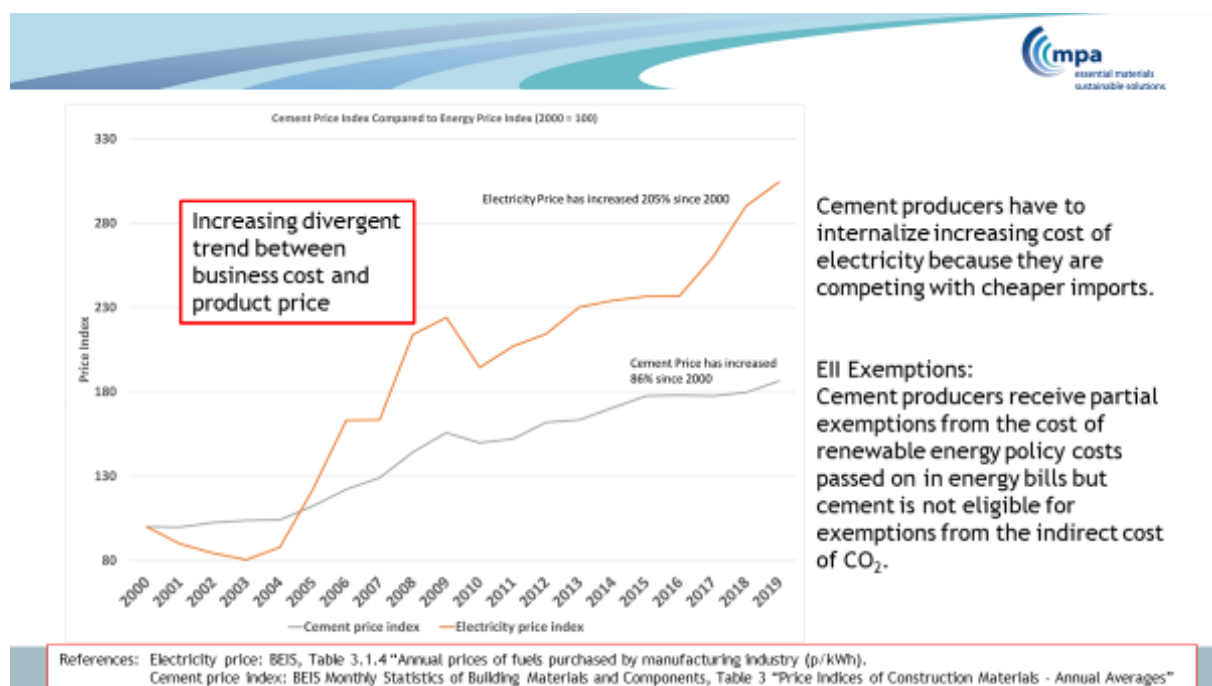
If you have any queries on the content of this consultation, please contact us at chargingfutures@nationalgrid.com.

Introduction to the Mineral Products Association

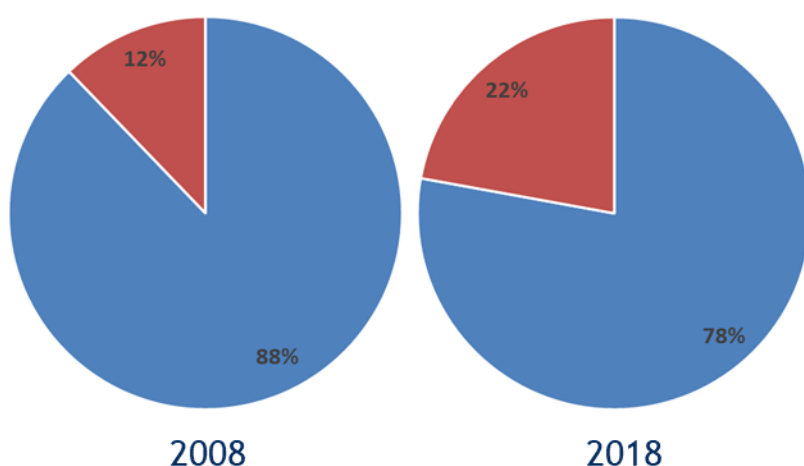
The Mineral Products Association (MPA) is the trade association for the aggregates, asphalt, cement, concrete, dimension stone, lime, mortar and silica sand industries. With the affiliation of British Precast, the British Association of Reinforcement (BAR), Eurobitume, MPA Northern Ireland, MPA Scotland and the British Calcium Carbonate Federation, it has a growing membership of 530 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 production, 90% of GB aggregates production, 95% of asphalt and over 70% of ready-mixed concrete and precast concrete production. In 2016, the industry supplied £18 billion worth of materials and services to the Economy and was the largest supplier to the construction industry, which had annual output valued at £152 billion. Industry production represents the largest materials flow in the UK economy and is also one of the largest manufacturing sectors.

Within the MPA membership, cement and lime producers are the most energy and carbon intensive and both sectors are highly vulnerable to carbon leakage (where high energy and carbon costs render domestic producers uncompetitive and domestic production is gradually replaced by imported products).

MPA is getting increasingly concerned about the high cost of electricity in the UK. The chart below shows indexed cement price and indexed electricity price over the period 2000-2019. Whilst cement prices have increased by 86% since 2000, electricity prices have increased by 205%. Increasing electricity costs cannot be passed onto cement customers because the increased cost will render the cement uncompetitive compared to cheaper imports.



In fact, rising energy prices are already a contributing factor to the increasing level of cement imports to the UK. The figure below shows that over the ten year period 2008-2018 imports almost doubled.



- MPA Cement Sales from domestic production
- All Imports

It is vital that the competitiveness of energy intensive industries (EII's) is protected from increasing electricity costs. This must be taken into consideration when reviewing any network related charges including BSUoS costs. This is reflected in the answers provided below.

Question	Response
1. Do you agree with the Task Force's recommendations on who should pay Balancing Services Charges (Deliverable 1)? Please state your reasoning and evidence behind your answer.	Although the report notes that wholesale prices should reduce as a result of the proposed BSUoS changes, there is no quantitative analysis to show what the net change might be for a consumer. Any reduction in wholesale cost very much depends on suppliers passing through that reduction. MPA is concerned about the impact a significant increase could have on EII's if savings are not passed through. As noted above, EII's are already disproportionately affected by high electricity costs and adding even higher charges could severely impact their competitiveness and ability to operate effectively in international markets. One of the task force recommendations should be for Ofgem to ensure there is some mechanism to verify that suppliers pass through any reduction in wholesale cost associated with the change, particularly to EII's who may be severely impacted by any increase.

	<p>MPA realises that however the charge is applied and who pays it, EII's could be disproportionately affected and any impact assessment by Ofgem must look at exactly what costs will be levied on consumers. Ofgem should further fulfil its role to 'protect the interests of existing and future consumers' by insisting that BEIS review EII compensation following the cumulative changes to network costs arising from this review and the TCR modifications.</p>
<p>2. The Task Force have discussed how the recommendation on Deliverable 1) for Final Demand only to pay Balancing Services Charges could impact on large energy users and the potential for 'grid defection'. Do you think 'grid defection' is a possibility and to what extent would the Task Force's recommendations impact on your answer?</p>	<p>EII's will do whatever is most cost effective for them. As noted above, electricity prices have been increasing faster than cement prices can increase and businesses are having to absorb that additional cost. EII's have observed the non-energy aspect of charges increase disproportionately to the commodity charge. This, combined with falling renewable energy costs, makes the business case for behind the meter generation increasingly attractive. As set out above, imports of cement have been steadily increasing their market share in the UK. This suggests that as non-energy charges are increased it is likely that off-shoring will take place before grid defection. Such off-shoring (or grid defection) could considerably impact other consumers, who would then have to bear a higher proportion of the costs.</p> <p>Avoiding grid defection is therefore in everyone's interests and the only way to do this is to ensure that costs don't end up so high for EII's that it is more cost effective for them to off-shore or defect. Greater protection from high network costs for EII's is required and Ofgem should insist that BEIS consider extending EII compensation/ exemption to network costs to protect EII consumers.</p>
<p>3. Do you agree with the Task Force's recommendations that an ex ante fixed charge would deliver overall industry benefits? Please state your</p>	<p>A fixed charge provides certainty and visibility, but it is the level of the charge, however it is set, that raises concerns for EII's. MPA is concerned that the fixed charge will incur additional costs for the consumer, whether this is a result of the</p>

reasoning and evidence behind your answer.	ESO being encouraged to over charge to prevent the need for loans to cover any under-charge or that any loans to cover under-recovery would incur a cost that is also passed onto the consumer. It is vital that these extra costs are minimised as far as possible so every effort should be made to make the BSUoS cost forecast for the period as accurate as possible.
4. How long do you think the fixed period should be and what in your opinion is the optimal notice period in advance of the fixed charge coming into effect? Please state your reasoning and evidence behind your answer.	For EII's an annual fixed charge would provide a useful period of cost certainty. If this fixed charge were to take effect from 1 st April each year, then at least 9 months' notice of the charge would be required to fit in with the budgeting process for the majority of EII's.
5. Which approach discussed by the Task Force (TDR banded £/site/day or volumetric £/MWh) do you feel is most appropriate for Balancing Services Charges? Please consider your answer against the TCR principles and state your reasoning and evidence to support your answer.	<p>MPA raised concerns with the TDR banded approach because it put a disproportionate amount of the cost onto EII sites that could render UK businesses uncompetitive in international markets. Furthermore, there are huge differences between the bands (even consecutive bands) and between geographical areas that could create competitive distortions within EII sectors.</p> <p>A £/MWh charge is the most transparent option that means all consumers are charged in the same way for the electricity consumed. As mentioned in the report "energy services ... should be billed in relation to energy volumes". This approach might also enable EII sectors to have a lower £/MWh charge to help protect competitiveness.</p>
6. The Task Force noted limitations of the approaches covered in Q5, what other methodologies or improvements to the ones in Q5 could you recommend to tackle them? Please consider your answer against the TCR principles and state your	A banding approach is a simple solution for the vast number of domestic, LV and HV consumers. However, for the limited number of EHV sites, where the potential distortions between competitors due to banding, are at their greatest, the data is available to attribute the costs on a site-by-site basis, without becoming overly burdensome. Such a hybrid approach

reasoning and evidence to support your answer.	would remove one of the key concerns of many ELLs.
7. Is 2years' notice of the changes prior to an implementation date appropriate? Please state your reasoning and evidence behind your answer.	Two years should be the minimum notice period. Due to the high proportion of energy in their overall costs, many ELLs hedge for periods of two years or more and ELL's need as much advance notice of potential charges as possible so they can be budgeted.
8. Should the Task Force consider any interim measures? Please provide details of any suggested interim solution including how it may deliver benefits to consumers or help to mitigate specific challenges facing market participants, whilst limiting any windfall gains or losses between industry participants.	<p>MPA is concerned about the impact of COVID-19 and how the deferment of part of the high BSUoS costs in 2020 could hit businesses in 2021, just as they're recovering from recession. More must be done to protect ELL's from the resulting high costs both as they recover and going forward.</p> <p>MPA would be against any other interim measures being introduced as this just represents more change for businesses to navigate during a time when resources are stretched.</p>
9. Do you feel that there any interactions with the Supplier Price Cap that need to be considered? Please state your reasoning and evidence behind your answer.	No comment- not relevant for ELL's.
10. The Task Force's initial recommendation is that Final Demand only will pay BSUoS. If this is the case, is the current RCRC mechanism is still appropriate? Please state your reasoning and evidence behind your answer.	No comment.
11. Is there anything further you think the Task Force needs to consider?	The Interim Report clearly highlights all the concerns of ELL's and the risk to competitiveness that high energy costs can bring, but it falls short of making specific recommendations to address these concerns. MPA would like the task force to consider specific

	<p>recommendations to address the concerns of EII's to align with the BEIS approach to provide protection to EII's from high energy and carbon costs. An example given above is for Ofgem to insist that BEIS look at extending compensation/ exemption to network costs to protect EII consumers.</p> <p>Another recommendation would be for Ofgem to ensure there is some mechanism to verify that suppliers pass through any reduction in wholesale cost associated with the change, particularly for EII's who may be severely impacted by any increase.</p>
<p>12. Please use this box to add any further comments that you may have</p>	<p>MPA re-iterates the task forces recommendation that it is absolutely vital Ofgem fully assess the cumulative impact of all of its proposed policy changes on EII's, and action is then taken by Ofgem or BEIS to ensure the competitiveness of these vital industries can be maintained.</p>