

The Mineral Products Association

The Mineral Products Association (MPA) is the trade association for the aggregates, asphalt, cement, concrete, lime, mortar and silica sand industries. With the recent addition of The British Precast Concrete Federation (BPCF), it has a growing membership of 405 companies and is the sectoral voice for mineral products. MPA membership is made up of the vast majority of independent SME companies throughout the UK, as well as the 9 major international and global companies. It covers 100% of GB cement production, 90% of aggregates production and 95% of asphalt and ready-mixed concrete production and 70% of precast concrete production. Each year the industry supplies in excess of £5 billion of materials to the £110 billion construction and other sectors. Industry production represents the largest materials flow in the UK economy and is also one of the largest manufacturing sectors. For more information visit: www.mineralproducts.org

Specific consultation questions:

Current Market Arrangements

1. Do you agree with the Government's assessment of the ability of the current market to support the investment in low-carbon generation needed to meet environmental targets?

Government has over estimated the support required for the electricity generation sector. The carbon floor price is an unnecessary additional cost that will be borne by consumers, particularly in energy intensive industries. The impact assessment states that energy intensive industries (EII's) will benefit in the future from the proposals because of more stable wholesale prices, whilst this may be possible, in the short-term EII's will be subject to added cost which when manufacturing is struggling out of recession will only slow the growth of the UK economy and slow the prospect of rebalancing the economy so it is less reliant upon the finance sector. Furthermore, energy intensive industries such as cement and lime are recognized as the most vulnerable to carbon leakage, mainly because of their direct emissions, but added cost to electrical power will impose increasing pressure to domestic manufacturers and the result will be that the UK will be less attractive to international investors. Investment signaling in the manufacturing sector is critical to local material supply because cement and lime plants are commitments for decades so if new investment is lost overseas then it is lost for decades and maybe forever.

2. Do you agree with the Government's assessment of the future risks to the UK's security of electricity supplies?

The consultation document identifies the principle dangers of lack of supply and the magnitude of the supply issue when current generation capacity is decommissioned. However, the analysis is weak with regard to the impact on energy intensive industries (EII's). EII's will face the greatest cost increases as the cost of paying for a

diverse and less certain generation mix is passed on by the generators. The ability of ELLs will be constrained in avoiding these costs as domestic capacities are reduced due to the recession giving reduced headroom for choosing when to operate.

Changing the generation mix in the UK has consequences for energy intensive users that use fuels as direct heat in their processes. It should be noted that increased gas generation could potentially lead to security of supply and added cost issues for industrial processes such as lime and asphalt, whilst at the same time increases their electricity costs. Diversification of the fuels used in solid fuel combustion generation will affect the alternative waste derived fuel supply for cement kilns.

Consequently, the security of energy supply is not just an issue restricted to power generation and the generation mix may affect the security of supply of manufactured goods.

Options for Decarbonisation
Carbon Price Support
Feed-in Tariffs

3. Do you agree with the Government's assessment of the pros and cons of each of the models of feed-in tariff (FIT)?

Yes, to a certain extent. However, the premium FIT appears to have been disregarded as the most expensive when modeled under the low gas price scenario. However, the likelihood is that gas prices will be higher and that makes the premium FIT a more attractive proposition. The premium FIT guarantees a premium price for the electricity and therefore gives greater certainty for investors. A premium FIT would be particularly useful to diversify the generation sector away from the 'big 6' so the Government should consider the option of a CfD fit for centralized generation because this would be the lowest cost for consumers but a premium FIT for decentralized producers that are self generating and have additional supply that can be used to supplement the market

4. Do you agree with the Government's preferred policy of introducing a contract for difference based feed-in tariff (FIT with CfD)?

A FIT with CfD is the best option for consumers because it limits the added cost to the average price plus the cost of the top up payment, however, how the tariff for the top up payment is derived will be vitally important to the added cost for large electricity users in the mineral products sector.

As explained in answer 3, the FIT with CfD is suitable for the centralized generators but to encourage diversification and self/auto generation a premium FIT should be considered for decentralized generators. This would provide the best combination for large power consumers e.g. in the cement and lime sector which may consider generating power if a premium FIT is available.

5. What do you see as the advantages and disadvantages of transferring different risks from the generator or the supplier to the Government? In particular, what

are the implications of removing the (long-term) electricity price risk from generators under the CfD model?

For smaller scale decentralized generators the risk transfer to Government would be welcome.

6. What are the efficient operational decisions that the price signal incentivises? How important are these for the market to function properly? How would they be affected by the proposed policy?

For decentralized feed-in generators the premium FIT price signal would provide the greatest level of certainty. This will mean that investment decision making is relatively certain given that a premium price will be paid (albeit fluctuating to reflect the market) for the electricity.

7. Do you agree with the Government's assessment of the impact of the different models of FITs on the cost of capital for low-carbon generators?

MPA broadly agree.

8. What impact do you think the different models of FITs will have on the availability of finance for low-carbon electricity generation investments from both new investors and existing the investor base?

No comment

9. What impact do you think the different models of FITs will have on different types of generators (e.g. vertically integrated utilities, existing independent gas, wind or biomass generators and new entrant generators)? How would the different models impact on contract negotiations/relationships with electricity suppliers?

Clearly, the FITs will help to diversify both the supply mix and the supplier mix. Adding new suppliers to the generation mix can only help to reduce the reliance upon the 'big 6'.

10. How important do you think greater liquidity in the wholesale market is to the effective operation of the FIT with CfD model? What reference price or index should be used?

No comment

11. Should the FIT be paid on availability or output?

The FIT should be paid on output.

Emissions Performance Standards

12. Do you agree with the Government's assessment of the impact of an emission performance standard on the decarbonisation of the electricity sector and on security of supply risk?

Emissions performance standards for fossil fuel generation will help to develop Carbon Capture and Storage. The peripheral benefit is that this will help to develop CCS for industrial processes and help develop the necessary CO₂ infrastructure.

13. Which option do you consider most appropriate for the level of the EPS? What considerations should the Government take into account in designing derogations for projects forming part of the UK or EU demonstration programme?

No comment.

14. Do you agree that the EPS should be aimed at new plant, and 'grandfathered' at the point of consent? How should the Government determine the economic life of a power station for the purposes of grandfathering?

No comment

15. Do you agree that the EPS should be extended to cover existing plant in the event they undergo significant life extensions or upgrades? How could the Government implement such an approach in practice?

Extending the EPS to existing plant that undergo significant life extension would help to ensure that CCS is developed and deployed at a reasonable rate. If EPS were not extended to cover existing plant then the deployment of CCS may be slower and have consequences from other sectors such as cement and lime that may form the second wave of CCS deployment.

16. Do you agree with the proposed review of the EPS, incorporated into the progress reports required under the Energy Act 2010?

It would appear a sensible route to ensure standards do not slip and CCS is deployed.

17. How should biomass be treated for the purposes of meeting the EPS? What additional considerations should the Government take into account?

The treatment of biomass should be consistent with EU ETS and with other processes that use biomass fuels i.e. biomass and biomass fractions should be considered carbon neutral.

18. Do you agree the principle of exceptions to the EPS in the event of long-term or short-term energy shortfalls?

Energy security is paramount but the generation sector should not be allowed to divert from their environmental obligations without financial or regulatory consequences.

Options for Market Efficiency and Security of Supply

19. Do you agree with our assessment of the pros and cons of introducing a capacity mechanism?

Broadly agree; payments for capacity rather than generation are likely to increase energy costs unnecessarily. Security of supply is vitally important to industry and in a

situation whereby the UK will be more reliant upon intermittent generation the need for additional capacity will be necessary to prevent industry having to slowdown/shutdown to keep the domestic lights on. The consultation has concentrated upon incentives for success but has provided little detail of disincentives for failure of the generators to meet their obligations, Government should provide more detail on this so that industry can be reassured that there is as much 'stick' as well as 'carrot' for generators to provide security of supply.

20. Do you agree with the Government's preferred policy of introducing a capacity mechanism in addition to the improvements to the current market?

Demand side reduction is vitally important particularly in the domestic sectors and sectors of business not regulated by existing climate change policy. In the event that demand side reduction plans are not ambitious enough and rather than a payment for standby capacity the Government should consider an obligation on centralized generators to have additional capacity available enforced by the capacity obligation. This is important because under the current proposals centralized generators operating in a captive market will receive all of the benefits but suffer none of the costs for failure.

21. What do you think the impacts of introducing a targeted capacity mechanism will be on prices in the wholesale electricity market?

Prices will increase to pay for the standby capacity.

22. Do you agree with Government's preference for the design of a capacity mechanism:

- a central body holding the responsibility;
- volume based, not price based; and
- a targeted mechanism, rather than market-wide.

We agree but note the need to address the points given in answer 20.

23. What do you think the impact of introducing a capacity mechanism would be on incentives to invest in demand-side response, storage, interconnection and energy efficiency? Will the preferred package of options allow these technologies to play more of a role?

It is likely to help storage and interconnection but will not affect demand side response or energy efficiency to a large degree and measurement of any improvement would be difficult.

24. Which of the two models of targeted capacity mechanism would you prefer to see implemented:

- Last-resort dispatch; or
- Economic dispatch.

No comment

25. Do you think there should be a locational element to capacity pricing?

No comment

Analysis of Packages

26. Do you agree with the Government's preferred package of options (carbon price support, feed-in tariff (CfD or premium), emission performance standard, peak capacity tender)? Why?

MPA has submitted comments to the Carbon Price Support consultation which are not repeated here, however, it should be noted that there are a considerable number of limitations and uncertainties with that policy proposal and Government should consider reviewing its introduction until after FITs and EPS have been introduced. The EMR consultation has a large number of interacting and overlapping options. It is not evident to MPA that all of these policies are needed and needed at the same time. Before the introduction of any of the options Government should consult again on the preferred options, timing their planned introduction and effectiveness review procedure.

27. What are your views on the alternative package that Government has described?

A FIT CfD or premium FIT is not required for centralized power generators that will be subject to the carbon price support. Applying these two mechanisms concurrently will lead to unnecessary additional cost to industrial consumers. Therefore the premium FIT should be reserved for decentralised generation to encourage autogeneration and reduced dependency on the 'big 6'.

28. Will the proposed package of options have wider impacts on the electricity system that have not been identified in this document, for example on electricity networks?

No comment

29. How do you see the different elements of the preferred package interacting? Are these interactions different for other packages?

Yes, as described in answer 27 a FIT CfD or premium FIT is not required for centralized power generators that will be subject to the carbon price support. Applying these two mechanisms concurrently will lead to unnecessary additional cost to industrial consumers. Therefore the premium FIT should be reserved for decentralised generation to encourage autogeneration and reduced dependency on the 'big 6'

Implementation Issues

30. What do you think are the main implementation risks for the Government's preferred package? Are these risks different for the other packages being considered?

This biggest risk for industry is additional cost potentially leading to accelerated carbon leakage and investment diversion away from the UK. The regulatory impact assessment fails to consider the cumulative impact of the packages alongside other climate change policies affecting energy intensive industries. This is a significant failure in the consultation and therefore whichever of the packages or revised packages is selected they should first be tested against the cumulative impact assessment for the Energy Intensive Industries that is being carried out by BIS.

Additionally, the reduction in security of supply is significant for EII as it is likely they will be first casualties of security of supply failure and of added excess costly. This risk is heightened as the ability of EIs is constrained because domestic capacities have in some cases been reduced due to the recession, giving lower headroom and reduced flexibility for example in choosing when to operate.

31. Do you have views on the role that auctions or tenders can play in setting the price for a feed-in tariff, compared to administratively determined support levels?

- Can auctions or tenders deliver competitive market prices that appropriately reflect the risks and uncertainties of new or emerging technologies?
- Should auctions, tenders or the administrative approach to setting levels be technology neutral or technology specific?
- How should the different costs of each technology be reflected? Should there be a single contract for difference on the electricity price for all low-carbon and a series of technology different premiums on top?
- Are there other models government should consider?
- Should prices be set for individual projects or for technologies
- Do you think there is sufficient competition amongst potential developers / sites to run effective auctions?
- Could an auction contribute to preventing the feed-in tariff policy from incentivising an unsustainable level of deployment of any one particular technology? Are there other ways to mitigate against this risk?

No comment

32. What changes do you think would be necessary to the institutional arrangements in the electricity sector to support these market reforms?

No comment

33. Do you have view on how market distortion and any other unintended consequences of a FIT or a targeted capacity mechanism can be minimised?

No comment.

34. Do you agree with the Government's assessment of the risks of delays to planned investments while the preferred package is implemented?

Whilst delays to implementation will impact on the UK's ability to meet its 2050 goals it is vital that the correct decisions are made not just for the electricity generation sector but mostly for consumers that will inevitably pay for the market shift.

35. Do you agree with the principles underpinning the transition of the Renewables Obligation into the new arrangements? Are there other strategies which you think could be used to avoid delays to planned investments?

No comment

36. We propose that accreditation under the RO would remain open until 31 March 2017. The Government's ambition to introduce the new feed-in tariff for lowcarbon in 2013/14 (subject to Parliamentary time). Which of these options do you favour:

- All new renewable electricity capacity accrediting before 1 April 2017 accredits under the RO;
- All new renewable electricity capacity accrediting after the introduction of the low-carbon support mechanism but before 1 April 2017 should have a choice between accrediting under the RO or the new mechanism.

No comment

37. Some technologies are not currently grandfathered under the RO. If the Government chooses not to grandfather some or all of these technologies, should we:

- Carry out scheduled banding reviews (either separately or as part of the tariff setting for the new scheme)? How frequently should these be carried out?
- Carry out an "early review" if evidence is provided of significant change in costs or other criteria as in legislation?
- Should we move them out of the "vintaged" RO and into the new scheme, removing the potential need for scheduled banding reviews under the RO?

It should be noted that grandfathering 'fuelled renewables' may have consequences for other industries. The cement and lime manufacturers in the UK use a variety of alternative waste derived fuels including biomass and part-biomass fuels. Grandfathering under the RO could influence the biomass fuel market for those processes that are not subject to the RO. Government should avoid influencing the biomass market which for directly fired operations such as cement, lime and asphalt could also be affected by the introduction of the Renewable Heat Incentive. This is because directly fired renewable heat falls outside of the RHI tariff structure that was consulted in April 2010.

38. Which option for calculating the Obligation post 2017 do you favour?

- Continue using both target and headroom
- Use Calculation B (Headroom) only from 2017
- Fix the price of a ROC for existing and new generation

Mineral Products Association
Response to the consultation on
Electricity Market Reform.



No comment

