



CHEMICAL INDUSTRIES
ASSOCIATION

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Consultation on the provision of third party access to license exempt electricity and gas networks – DECC

Response from Chemical Industries Association

The Chemical Industries Association¹ welcomes the chance to respond to this consultation. The CIA has a proportion of members who either currently supply sites through a private network, are supplied by a landlord through a private network or in some cases are both sides of the fence (both in the UK or throughout Europe).

The CIA, through our European affiliation CEFIC², was actively involved in lobbying for the closed distribution system amendment to the EU 3rd Energy Package. However we were not aware of / part of the number of bilateral meetings or workshops DECC had on this subject. ***We hope that the input from large industrial consumers has not been lost and seek involvement in any further discussions*** before implementation on the 3rd March 2011. The arrangements that may satisfy the tenant of a shopping mall may be wholly inadequate for large energy users embedded within complex industrial sites.

Our members are broadly supportive of the way Government seeks to implement the EU 3rd Energy Package into UK law. It is recognised that all energy users have the right to access energy markets and the benefits that brings. We also recognise DECC's pragmatic approach by not proposing to revoke the self-certified class exemption regime through the mechanism of imposing third party access requirements. Finally ensuring that third party access arrangements need only be put in place once requested has ensured that in many cases current supplier agreements will stand.

¹ The CIA has in membership around 150 of the larger companies in the UK chemical and pharmaceutical industry, which has aggregate turnover in excess of £60bn and directly employs almost 200,000 highly skilled people. It is the only major sector to maintain a significant positive trade balance, typically registering a surplus of £5bn annually.

² European Chemical Industry Council

Although the right to have 3rd party access is welcomed the complexity of many sites leads to many concerns as to the actual implementation of that proposed in the consultation document. Our members do not have the available resource to provide the same amount of onerous administration that an energy supplier has. It is therefore important that the implementation into UK law ensures that the industrial consumers are not overly burdened through this regulation.

Please find our feedback and concerns to the details proposed in the consultation and the two questions asked.

Do you have any views or concerns on how Government intends to apply third party access requirements to license exempt undertakings?

Do you have any views or concerns on how Government intends to apply these Third Package requirements to license exempt undertakings?

Complexity of sites

In a number of instances chemical site networks have evolved through divestments and acquisitions and hence vary both in size and complexity throughout the UK. We would like to echo the responses made to the DECC call of evidence earlier this year in which it was highlighted that *"the license exempt sector was diverse and this emphasised the need to be flexible, rather than adopt a 'one size fits all approach'.* Any proposals should have the flexibility to take into account the physical nature of the site.

Allowing third party access within three weeks

Given the complexity and physical characteristics of license exempt networks within the Chemical sector we have concerns that the three-week rule in practise would not be possible. Meter operating agreements, setting up allocation arrangements, appropriate treatment of losses and power factors, and the possible complex settlement arrangements along with health and safety considerations (with any network work) are a few examples of possible complexities.

Regulatory burden / Ofgem

The UK energy regulator will be tasked with many aspects of the implementation of the proposed changes. It will also be approving the use of system tariffs / methodologies, either directly or through any complaints procedures in the case of closed distribution systems. It is important that Ofgem assess any issues on a case-by-case basis, noting the physical aspects of the network. We again would like to echo that a 'one size fits' approach is not appropriate. An energy supply to a small workshop or office building is very different to a supply to safety critical equipment on a hazardous site. ***We hope the energy regulator adheres to the same proactive and flexible approach that DECC have demonstrated.***

Metering / Network reliability

We welcome that any costs associated with connection arrangements are met either by the consumer and/or the prospective supplier. However there is a question as to where the liability lies between the network operator and 3rd party supply in terms of network reliability/reinforcement and the embedded customer needs.

Closed distribution network

We would welcome more clarity on the definition of a closed distribution system and the mechanism as to how license exempt distribution networks will be recognised under this category.

Capacity

Some members have expressed concerns over the current capacity of their networks and whether tenants will have the ability to take up any spare capacity, or how the current capacity will be apportioned. For example a license exempt network operator may have booked capacity in excess of the networks need. This may be due to a historical reduction in site capacity, the allocated capacity is not decreased by the operator (and still pays high costs) as a request for increased capacity for future investment on site will come with a significant connection cost. An embedded customer could potential request 3rd party access with increased consumption and take up the operator's spare capacity, potentially blocking any future investments. Moreover on more complex sites, the sum of individual plant (or customer) maximum demands will frequently be less than the maximum demand of the site. What rights does a customer have to a proportion of the site capacity? How would that proportion be calculated? ***We would welcome further clarification as to the rights of the operator and embedded customer in these instances.***

Long-term service agreements (LSA's)

Many of our members have LSA's with customers on their private networks. We would like clarification as to whether the new 3rd party access requirements legally overwrite these pre-arranged commitments.

