



Rt Hon Kwasi Kwarteng MP
Minister of State for Business, Energy and Clean Growth
Department for Business, Energy and Industrial Strategy
1 Victoria Street
London SW1H 0ET

1 October 2020

Dear Minister

As the Chief Executive of the industry body that represents the chemical-processing sector in the North East of England, I am writing to you regarding Ofgem's decision to implement a new "Postage Stamp" gas charging framework that comes into effect today.

For many in our sector the new framework, and the loss of shorthaul tariffs, has created a rise in costs which materially negates their ability to remain competitive in international markets.

The previous framework ensured that major gas consumers would remain connected to the 'Grid' and contribute fairly toward sunk investment and ongoing maintenance and balancing costs. This was achieved by offering a shorthaul tariff commensurate with alternative bypass costs. The decision to remove this mechanism, and impose a Postage Stamp charge, creates a clear economic signal not only for our sector, but many others to permanently bypass the National Transmission network.

In doing so, up to £100 million of charges levied on major consumers could be lost, instead being recovered from the remaining 25m gas consumers, now and into the foreseeable future. We believe this to be grossly inefficient given the NTS network is already 'largely operating below capacity with declining demand.' Further investment in gas bypass puts at risk capital that might otherwise be used in decarbonising our sector, moving to a hydrogen economy and delivering net zero.

In assessing the impacts of the new charging framework, in December 2019 Ofgem acknowledged it created a signal for some to inefficiently bypass the grid and asked for proposals that might mitigate the unintended consequence. Accordingly, National Grid and 5 other Gas Suppliers developed proposals which were formally presented to Ofgem for their consideration and direction on 8th July. Despite their clear commitment to expediently resolve the matter, to date we have no indication or timescales of their position and their 'Impact Assessment' has been ongoing since 16th July.

Throughout 2020, we and others across the gas and power sector have all called upon Ofgem, and Government to defer or address the new arrangements and deliver a fair and appropriate charging mechanism which benefits all gas consumers.

Recognising Ofgem's desire to implement the Postage Stamp arrangements, we discussed with their representatives a proposal to defer collection of the new charges which they considered to mitigate against the operational and economic challenges resulting from the Covid-19 pandemic. Whilst welcome in terms of cash flows, we made it clear to Ofgem that this would not negate the cost increase and impact on international competitiveness, and simply result in a financial liability being recorded on companies Balance Sheets.

As an industry body, we appreciate that you have been in regular discussion with Ofgem, and that you have pledged to continue to work closely with them on matters that impact our international competitiveness.

THE NORTH EAST OF ENGLAND PROCESS INDUSTRY CLUSTER LIMITED (TRADING AS NEPIC)

DURHAM - TEES VALLEY OFFICE

Room B222
The Wilton Centre
Wilton | Redcar
Cleveland | TS10 4RF

+44 (0) 1642 442 560
enquiries@nepic.co.uk
www.nepic.co.uk

NORTHUMBERLAND - TYNE & WEAR OFFICE

Loftus House
Colima Avenue
Sunderland
Tyne & Wear | SR5 3XB

+44 (0) 191 516 4400
enquiries@nepic.co.uk
www.nepic.co.uk



We appreciate also that Ofgem, as the independent energy regulator, has responsibility for matters relating to gas network charging. However, we consider Ofgem to have failed in their duty to protect not only those consumers directly affected by the changes but to all consumers to whom the financial costs of bypass will inevitably fall.

The reality is this - significant employers in the region could be under threat. The loss of short haul would be extremely damaging for both businesses and the region, whilst coming at a time when important net zero investment decisions are being taken to safeguard existing and create new highly skilled jobs in the local area.

Far from creating jobs in northern towns and cities, these changes may achieve the opposite of what this government stands by and directly impacts industrial clusters in the north of England and their supply chains that collectively employ tens of thousands of people. Furthermore, changes will add to the significant financial challenges already faced by industry including trade tariff and greenhouse gas regime uncertainty, compliance with EU waste incineration, wastewater directives and plastic packaging tax. The impact of the changes on key industries is especially difficult at a time when the UK's supply chains are facing significant operational challenges related to the Covid-19 pandemic.

Now more than ever, we should be working together to protect the UK's foundation industries, or potentially face losing them and the downstream sectors that depend on them. Manufacturing, particularly process and chemical manufacturing, offers the UK high value products, high grossing jobs and simply underpins thousands of companies, both small and large that supports industry with products and services.

As the foundation block of UK manufacturing, the process and chemical sector must be considered. Furthermore, if the UK is to realise its Clean Growth potential, in relation to hydrogen, carbon capture usage and storage and plastics recycling, core industries must be protected and remain globally competitive. Without them a circular economy is simply unachievable.

As a significant chemical producing region, we ask that you make urgent representations to Ofgem on its timescales for introducing a tariff that retains energy intensive industries on Teesside and in the UK, on the national gas grid.

Yours sincerely

Philip Aldridge
Chief Executive Officer, North East Process Industry Cluster (NEPIC) Limited

And on behalf of:

BOC Linde
CF Fertilisers
Huntsman Polyurethanes (UK) Limited
Lucite International
Sembcorp Energy UK

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