



By email to: TCR@ofgem.gov.uk

05 July 2021

Dear Tim

Re: SEUK Response to CMP343 – consultation on minded-to decision and impact assessment

Shell Energy UK (SEUK) welcomes the opportunity to respond to this consultation. SEUK is a non-domestic energy supplier operating in the UK. Our current portfolio is made up of a combination of Microbusiness, Small to Medium Enterprises (SMEs) and Commercial & Industrial (C&I) customers.

As set out in previous consultation responses on the Targeted Charging Review Significant Code Review (TCR SCR) Shell agrees that there is a case for change to ensure that GB charging arrangements remain fit for purpose, support the energy transition to a more decentralised and low carbon electricity system and continue to ensure a fair allocation of costs between different groups of consumers.

However, we are concerned by the proposals in this consultation as we do not consider them to be fully within the scope of the TCR SCR, we expect the proposals to be amended further subject to the Access and Forward Looking Charging Review (AFLCR) process and we do not believe that the proposals represent an enduring, equitable and proportionate solution.

To address these concerns, we propose that Ofgem re-consults on this element of its TCR SCR decision and aligns decision making and implementation with the AFLCR process. We would welcome the opportunity to discuss our concerns, and the other matters raised in this response, with Ofgem in more detail in a bilateral meeting.

Our responses to the individual consultation questions are set out below.

Your sincerely,

Daniel Parry
Head of Regulation
SEUK

Question 1: Do you agree with our assessment of the distributional impacts of the flooring approaches?

We agree that Ofgem's assessment highlights a need for simple and predictable forward-looking signals, however, we do not consider that the proposals presented achieve this. As is, the proposals lack a clear way forward. Specifically, there is no visibility of how the options presented will interact with the outcomes of the AFLCR process.

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Whilst we understand Ofgem's intention, the introduction of a zero-floor is a significant change to the status quo as, based on our understanding, it would significantly dampen the locational signal for demand. This would result in additional and unanticipated costs to some consumers due to their geographic location (e.g. Scotland). In addition, we expect that the proposed solution to be in place for a temporary, but unknown period, as it may be subsequently and significantly amended under the AFLCR process. This lack of clarity places a strain on both consumers and suppliers.

If the proposed dampening of the locational demand signal does result in significantly higher costs for some consumers – as a result of a defect in the charging methodology – then it would be fair and equitable for Ofgem to consider how to compensate those consumers, until that defect is addressed through the AFLCR process. Ofgem should also note and consider the potential and significant inconsistency that dampening the locational signal for demand creates with respect to its policy approach to the locational signal for generation.

We are concerned that the proposal to dampen the locational signal for demand represents a material departure from our understanding of the intention and scope of this Significant Code Review. As such, we do not consider that the change should be made through this code modification process. Our preference would be for Ofgem to re-consult on this element of its TCR SCR decision, which will also provide Ofgem the opportunity to align the TCR SCR decision making with the AFLCR process and ensure that an enduring solution can be found that does not penalise certain consumers or generators.

Question 2: Do you agree that, of the flooring options presented, flooring at 0 best meets the TCR Principles and Applicable CUSC Charging Objectives?

We are concerned that Ofgem's impact assessment states that any decision now may only be considered as a 'temporary solution' pending the outcome and implementation of the AFLCR. This suggests the market could be subject to further periods of uncertainty to the detriment of suppliers, generators and consumers. Also, as noted in the response to Question 1, dampening locational signals by flooring at zero was not part of the scope of TCR. We would like to highlight that this is not a trivial matter for consumers who need to rely on more than an interim intervention on this element of residual charging.

Question 3: Do you agree with our assessment of the distributional impacts of the banding approaches?

We recognise the merit in seeking to introduce a proportionate solution for all transmission-connected sites. We understand Ofgem's motivations for such an approach however, we consider that the banding as it is currently proposed is not appropriate. By introducing banding for transmission-connected consumers there would be a new level of complexity that does not wholly benefit the smallest of these consumers. They would be subject to an equivalent unit rate multiple times greater than larger consumers with no means to move to a lower tariff. It is also concerning that this has occurred so late in the TCR process and after parties have relied on the single band charging approach in their forecast modelling.

Ofgem's impact assessment states:

"Our TCR Decision was partly based on the assumption that [...]: Consumers connected to the transmission network were thought to span around one order of magnitude range in size - less than other groups. [...] In fact, data provided by the ESO since the TCR Decision reveals that transmission connected consumers vary in annual consumption from less than 5GWh to more than 500GWh [...]"

The timing of this data is unfortunate as we would have expected that such data would have been a key driver for the TCR decision to create one band for transmission-connected sites. We feel that the banding is too wide and represents significant increases / decreases in consumers' charges when consumption is close to the

banding thresholds. Also, when considering the bandings presented in WACM2, a 50% reduction from the smallest consumer in Band 4 should result in the consumer then being classed as being in Band 2. We remain uncertain whether that would be possible, and if not, why would it not be possible?

As outlined in previous communications from Shell, our preference would be to adopt a more proportionate consumption or capacity per MW approach. This better supports all transmission-connected end users to manage their electricity consumption as best suits their own business needs and it fosters positive engagement with economic signals from regulated activity.

In addition, if such a banding mechanism is introduced, we would strongly recommend that it allows users to move dynamically between bands based on their behaviours. We would like to see any changes in consumer behaviour (e.g. a reduction in consumption) swiftly recognised in reduced banding.

Question 4: Do you agree that, of the banding options presented, four bands best meets the TCR Principles and Applicable CUSC Charging Objectives?

We do not agree that four bands as presented in WACM2 adequately meets the TCR Principles and Applicable CUSC Charging Objectives. It does not equitably address the disparity of cost from the smallest to the largest transmission-connected end users on a unit rate level. It also introduces an unpredicted fixed cost for the largest end users (in the 85th centile for consumption) that contradicts all economic signals to date with potential significant repercussions (including threats of disconnection from very large end users). This in itself has raised the necessity of a one-year implementation delay, so disconnecting the timeline of TCR changes to distribution and to transmission-connected sites.

Ofgem's impact assessment also identifies the likelihood of a house-keeping modification proposal to clarify the time periods for the data to determine bandings. As currently proposed, this appears to make reference to a 2-year period up to March 2021 for any future banding impact assessments. If this is the case, then a future review would include consumption data during the Covid-19 pandemic. During this period government requirements and other socioeconomic factors have significantly impacted C&I energy usage. We consider that due to this factor a review as currently proposed would be inappropriate.

Question 5: Do you consider that any of the options presented adequately addresses very small users (including those associated with mixed use sites)?

No. Under all the proposals presented smaller transmission-connected end users are exposed to a much higher cost/unit than larger sites. Ofgem's own analysis in its impact assessment of its preferred option (WACM2) highlights that the smallest users in Band 1 would still be facing an equivalent unit rate charge of more than £80/MWh, compared with a maximum of £18/MWh for the smallest users in other bands and £4/MWh for the largest users in Band 4. Shell considers this does not reflect an enduring, equitable and proportionate solution.

Question 6: Do you agree with our minded-to decision to approve CMP343 WACM2?

As noted in the comments above and in previous responses to Ofgem on TCR, Shell would like to see a more granular and equitable solution that will compliment and support the AFLCR process and encourage green innovation by transmission-connected end users. We do not support CMP343 WACM2 as it represents a significant divergence from our understanding of the scope of the TCR SCR decision by:

1. introducing a zero floor which will dampen the locational signal for demand,
2. four bandings replacing one band, and
3. setting t bandings on end user consumption rather than on capacity.

In addition, we also expect these proposals to be subject to further change as a consequence of the AFLCR process and the sequencing of policy development.

Question 7: Do you agree with our minded-to decision that implementation should be delayed by a year, until April 2023?

Shell considers the delay until at least April 2023 is essential. We would support a holistic approach in which Ofgem could revisit the TCR SCR modification decision, aligned with the timing of the AFLCR process, and implement an enduring solution. Changes of this magnitude cause significant market distortion.

As previously noted in Shell Energy's response to Ofgem on TCR in July 2019, such changes can also have the unintended consequence of disproportionately favouring those market participants and / or C&I end users who choose not to actively respond to economic signals sent by the regulatory regime.